Catalyst

sustainability report 2008

decisive action in changing times

About this report

This is Catalyst Paper's sixth annual stand-alone sustainability report. It highlights three areas of the company's sustainability performance during 2008, that are of particular interest from investor, stakeholder and market perspectives. These feature discussions – relating to business viability, relationships with employees and communities, and product pedigrees – were selected based on an employee survey and a materiality analysis involving senior Catalyst staff, sustainability consultants and representatives of Canadian Business for Social Responsibility. This report also includes environmental and other data disclosure, as provided in previous reports.

This report is part of a broader disclosure process, which includes Catalyst's annual report and information on its website, **www.catalystpaper.com**. Unless otherwise stated, the information in this report is for the period January 1 to December 31, 2008, and encompasses all of Catalyst's wholly owned operations and world-wide sales. In the case of the Snowflake recycled newsprint mill, and unless otherwise stated, outputs and performance reflect the acquisition date (April 10, 2008). Where relevant, results for Canadian operations only are included for comparability with previous years. Reporting scope and metrics are otherwise essentially unchanged from previous reports. Where deemed helpful, calculation methods and any restatements or comparability issues are included.

This report constitutes Catalyst's Communication on Progress as a signatory to the United Nations Global Compact. Catalyst self-declares its corporate disclosure process to Global Reporting Initiative (GRI) Application Level C (see index on page 34).

developments during 2008 were a clear reminder of the importance of the economic plank of sustainability

Company profile

Catalyst Paper manufactures diverse specialty printing papers, newsprint and pulp, and is headquartered in Richmond, British Columbia, Canada. Its customers include retailers, publishers, commercial printers and paper manufacturers in North America, Latin America, the Pacific Rim and Europe. With six facilities strategically situated in British Columbia (B.C.) and Arizona, Catalyst has a combined annual production capacity of 2.5 million tonnes.

Catalyst has earned a reputation for environmental leadership, based in part on extensive recycled capacity, energy efficiency and greenhouse gas reductions. This is the basis for the Catalyst Cooled™ manufactured carbon-neutral and certified-fibre chain-of-custody product offerings. Combined with cost discipline and production efficiency, these sustainability attributes have enhanced Catalyst's competitive position.

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Erratum: 2008 corporate-wide electricity use was 5,076,199 MWh and this is the figure that should have appeared in the statistics on page 4 and the graph of the total electricity use on page 18 of this report.


we want to be preferred by customers, welcomed by civil society, attractive to employees, competitive in capital markets

feb 08

Definitive agreement announced to acquire Snowflake recycled newsprint mill in Arizona from Abitibi-Bowater

apr

Rights offering, by which Snowflake acquisition was largely financed and with net proceeds of $121.1 million, closed 27% over-subscribed

Restructuring measures announced involving employment reductions at Crofton and Elk Falls divisions

Q1 financial results released, including a $37.4-million net loss ($21.8 million loss before specific items)

may

A4 paper machine at Port Alberni restarted, based in large part on innovative labour agreement with Communications, Energy and Paperworkers locals

jun

Notice provided by Smurfit-Stone of corrugating medium machine shut-down at Snowflake

finding new ways forward often begins by setting aside outdated assumptions

It may be unusual to begin a sustainability report with a focus on financial realities. But as the world economy shifted into recession in late 2008, it was a clear reminder of the importance of the economic plank in a truly sustainable business. The decline in commodity markets, including paper, stalled and reversed our year-long product pricing momentum.

For Catalyst, the downturn made our cost-efficiency focus in the past 18 months even more prudent and business-critical as we look ahead. Of course, this does not mean we will abandon our attention to workplace safety or shed our responsibility for good environmental practices. These are obligations we also consider business critical and they are rooted in our values as a company. We have formalized this belief through continued participation in the United Nations Global Compact.

The capacity to address tough challenges with decisive action is a discipline that we have shown for two years now, and it is a management competency that we will continue to build on during this period of economic contraction. In 2008, we closed the Elk Falls sawdust pulp and white top linerboard operations due to the unavailability of sawdust fibre supply, and we pursued geographic diversification by acquiring the recycled newsprint mill at Snowflake, Arizona.

Our business strategy considers evolving social expectations and aligns with sustainability values that we see as integral to our commercial success. Our 2008 sustainability report highlights three areas of particular interest from investor, stakeholder and market perspectives.

While we strive for operational improvements on multiple fronts, we have highlighted key aspects of environmental performance of most interest to customers – fibre sourcing and certification, recycled paper production, and the carbon footprint of select paper products. Our product offerings are backed by clear and consistent performance reporting that can stand the scrutiny of well-known environmental groups.

jul

More than $30 million in property taxes (including school levy) paid for B.C. operations and offices – nearly equivalent to annual capital budget for the same facilities

Decision announced to close sawdust pulp and white top linerboard operations at Elk Falls, as of November and due to lack of sawdust availability

Q2 financial results released, including a $124.3-million net loss (reflecting an after-tax impairment charge relating to the Elk Falls closure; loss before specific items was $22.7 million)

aug

Successful negotiation announced of new $330-million asset-based loan facility maturing in 2013

nov/dec

Q3 financial results released, including a $10.9-million net loss ($7.2-million profit before specific items)

Tentative agreements reached on new collective agreements with PPWC and remaining CEP locals, and subsequently ratified

feb 09

Q4 financial results released, including a $48.5-million net loss ($9.3-million profit before specific items)

President's message

Richard Garneau
President and Chief Executive Officer
February 12, 2009

We have long-standing relationships with many of our employees, and even longer-standing with our operating communities. It's natural that social expectations often reflect the realities of a far earlier time. Finding new ways forward often begins by challenging and setting aside outdated assumptions. With our workforce, we are developing new understandings of the nature and scope of employment, and with community leaders we are focusing on the benefits that can be reasonably sustained as we look to the future.

Since no aspect of our business is sustainable if our financial house is not in order, we were pleased to end the year with a more efficient manufacturing platform, with operating credit requirements in hand, and with an expanded product offering that continues to build on the merits of lighter basis-weight papers.

Tax-related issues, however, remained a challenge. We took steps in 2008 to raise government awareness of the significant discrepancy between the cost of municipal services received by our mills and the property taxes levied on major industry. A lower school tax rate for major industry was good news, but the savings were more than offset by British Columbia's new carbon tax which went into effect on July 1st.

We are determined to see action in 2009 on the municipal tax issue, and we want to ensure that additional regulatory measures account adequately for the significant carbon reductions we have already achieved. We will also renew our focus on safety, a vital performance metric on which we made some progress in 2008, but not as much as was called for.

Ultimately, we are determined to become a profitable business – preferred by customers, attractive to employees, welcomed by civil society, valued by shareholders, and competitive in capital markets. We're not entirely there yet, but we moved closer in 2008 even though global economics worked against us. Your feedback, as always, is welcome and can be sent to contactus@catalystpaper.com.

Key Performance Statistics

Social	2008 Corporate-wide	2008 Canadian operations only	2007	2006
Lost-time injury frequency [1,2]	2.19	2.32	2.06	1.51
Medical incident rate [2,3]	4.49	4.53	3.70	3.68
Employee population [4]	2,711	2,389	3,023	3,655
Payroll ($ millions) [5]	264	242	304	316
Charitable donations ($ thousands)	102	88	239	320

Economic ($ millions)	2008 Corporate-wide	2008 Canadian operations only	2007	2006
Total taxes paid [6]	49.0	48.5	49.2	53.5
Total sales	1,849.4	–	1,714.6	1,882.5
Net earnings (loss) [7]	(221.1)	–	(31.6)	(15.9)
Market capitalization	115	–	337	762
Return on capital employed	(2.1%)	–	2.6%	0.0%

Environmental	2008 Corporate-wide	2008 Canadian operations only	2007	2006
Greenhouse gas emissions [8,9]	1,039,366	379,582	431,780	418,590
Total reduced sulphur (TRS) emissions [10,11,12]	138	138	154	134
Particulate emissions [10,11,13]	932	841	733	1,170
Biochemical oxygen demand (BOD) [10,12]	1,258	1,258	1,596	1,828
Total suspended solids (TSS) [10]	3,978	2,912	3,490	3,716
Water use (m^3) [9]	160,343,785	147,174,176	165,846,744	177,989,675
Fuel energy use [14,15]	43,375,581	36,903,866	41,038,926	46,503,816
Electricity use [15,16]	5,840,187	4,838,176	5,067,222	5,491,260
Solid waste disposal [17]	260,386	156,879	154,475	166,249
Old newspapers and magazines recycled [10]	526,725	151,287	170,272	173,195

2008 corporate-wide results include the Snowflake, Arizona, operation and reflect its acquisition date of April 10, 2008

1 Number of lost-time injuries per 200,000 hours worked
2 2006 and 2007 figures updated to reflect post-year-end adjustments based on injury progression/duration
3 Number of medical incidents per 200,000 hours worked
4 Excludes vacancies
5 Includes all salaries and wages paid, excluding benefits and severance
6 2007 figure updated to correct a calculation error
7 The increase in net loss is largely attributable to an asset-impairment charge relating to the closure of Elk Falls sawdust pulp and white top linerboard operations
8 Tonnes CO_2e per year
9 2006 and 2007 figures updated to reflect calculation adjustments

A complete glossary of terms and definitions is on page 35

10 Tonnes per year
11 Based on actual test results; NPRI data may differ because they include other sources and utilize emissions factors
12 Relevant at Canadian operations only
13 Previous years' particulate results have been updated; previously reported figures reflected permit limits rather than actual emissions at one operation and were, therefore, significantly overstated
14 Gigajoules – includes fossil fuels and biomass
15 2007 figures updated to reflect calculation adjustments
16 Megawatt-hours – purchased and self-generated
17 Cubic metres per year

Governance and Guidance

Effectively pursuing sustainability requires consistently integrating defined values, objectives and operating principles into all corporate activities. The following briefly describes key frameworks that support Catalyst in doing so, and further details are available at www.catalystpaper.com ("About Us").

Corporate governance

Catalyst's 10-member board of directors and its four committees operate under publicly disclosed administrative guidelines and terms of reference, and seek continuous improvement in their practices based in part on the application of best practices and external guidelines.

While principles of corporate social responsibility consistently inform board deliberations, its Environment, Health and Safety Committee has particular responsibilities in this regard, and designated executives report to it quarterly on this topic.

Director independence and effectiveness are evaluated annually through questionnaires. All directors were independent during 2008, with the exception of Chief Executive Officer, Richard Garneau, and Denis Jean, a director who provided consulting services to Catalyst. Most director compensation is equity-based and, therefore, aligned with corporate performance.

Code of ethics and policies

Actions on the part of Catalyst's board, executive and employees are governed by a Code of Corporate Ethics and Behaviour, which addresses issues including financial-transaction recording, bribery, political contributions, conflict of interest, and competition laws. All salaried employees are asked to annually review and certify their acceptance of and compliance with the code.

Employees can anonymously report concerns regarding accounting or other matters pertaining to the code using a special telephone line. There was one call to this line on a conflict of interest matter during 2008. The matter was investigated by a professional-services firm under Audit Committee direction and it was determined that no action was required, however, internal processes were amended and clarified.

A range of policies govern more specific aspects of corporate activity. They are reviewed annually and employees and business partners are made aware of them.

Stakeholder relationships

Catalyst routinely engages with diverse stakeholders whose interests intersect with its corporate activities. They include business partners (capital providers, employees, suppliers, customers), residents of operating areas, governments, aboriginal groups, and environmental organizations.

Engagement is tailored to the particular stakeholders and issues, and is frequently open-ended and flexible. More formalized structures include investment analyst calls and tours, community advisory forums, joint committees, and forums such as the Coast Forest Conservation Initiative. Engagement principles include transparency, respectful dialogue, and a focus on mutual interests. Specific issues raised and responses during 2008 are described in various sections of this report.

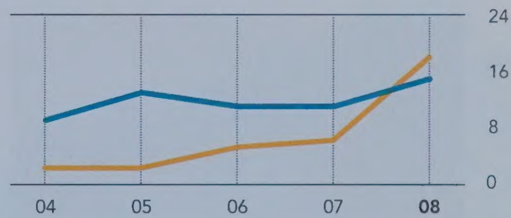
Management systems and audits

Catalyst has formal environmental and quality-management systems widely in place. Production and distribution facilities are registered to the ISO 14001:2004 environmental standard and, with the exception of Paper Recycling Division, are also registered to the ISO 9001:2000 quality standard. In both cases, independent re-registration audits are required every three years, and independent and internal surveillance audits are required annually.

Catalyst also commissions additional independent audits at its facilities every second year focusing in part on regulatory compliance (2008 audits did not include Snowflake, but subsequent ones will). The number of action items identified in 2008 increased 19 per cent from 2006. However, high-priority action items were down by 18 per cent in the same period, and the auditors deemed the trends to indicate ongoing improvement in managing overall environmental risk.

Non-compliance events by emission

(total company)



	04	05	06	07	08
Water	9	13	11	11	**15**
Air	2	2	5	6	**18**

There were no non-compliance events at Snowflake in 2008

Water
Air

addressing business viability

Catalyst and the entire forest products industry faced very difficult business conditions during 2008. The global credit crisis and economic downturn exacerbated the significant challenges already created by factors such as demand declines, currency volatility, input shortages and cost increases.

In 2008, Catalyst took particularly decisive action to align its operational platform with current business opportunities and realities, and maintained a long-standing focus on cost control and production-demand alignment. Product innovation also helped maintain market position and margins in the face of often challenging demand conditions.

Readers with an interest in more detailed information on Catalyst's financial performance during 2008 will find the company's annual financial report at www.catalystpaper.com.

Operational platform

During 2008, Catalyst became a continental company with the acquisition of a 100-per-cent recycled newsprint mill located in Snowflake, Arizona. This is an important advancement in the ongoing effort to develop a more cost-effective operating platform that enhances Catalyst's already strong position in western North American markets.

Snowflake is one of the lowest-cost newsprint mills in North America, and is located in close proximity to growth markets that offer access to good-quality recovered paper supplies and a natural hedge against currency fluctuations. More than US$9 million in acquisition-related synergies, on an annualized basis, were achieved in 2008.

Within British Columbia, Catalyst's operating platform became smaller in 2008. Sawdust pulp and white top linerboard production at Elk Falls Division was closed due to lack of sawdust availability.

The scope of production at Snowflake was reduced during 2008, with closure of a corrugating medium machine. This machine was owned by Smurfit-Stone Container Corporation and was housed and operated at Snowflake under contract. The decision to stop operating it at the end of the contract was Smurfit-Stone's, and was anticipated when Catalyst acquired Snowflake. About 100 positions were eliminated as a result.

Cost and production discipline

A continued and comprehensive cost-control focus during 2008 included the pursuit of labour cost benchmarks and a range of other reductions and efficiency improvements.

Continued use of regular operational audits, conducted on a machine-specific basis by employees from other divisions, contributed to production-related efficiency. Knowledge transfer between Snowflake and other operations was also beneficial. This included adoption of whiteness rather than brightness as a key product quality criterion, a change that has been found to meet end-use requirements while reducing chemical use. An audit of Snowflake's No. 3 paper machine also identified various improvement opportunities.

Among other specific cost-reduction achievements during the year were a suite of four product distribution initiatives. These involved higher yield (product loading) on rail cars, higher yield on trucks, deployment of larger company-controlled barges, and improved company-wide inventory management and productivity at the Surrey Distribution Centre.

Catalyst also continued to adhere to a rigorous strategy of matching production to customer orders – a strategy of particular importance during a year which saw often weak demand conditions and the onset of a widespread economic downturn.

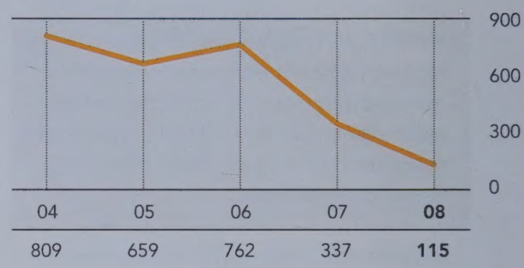
Catalyst acted quickly in 2008 to implement curtailments across all three product segments as market demand dictated, in addition to curtailments necessitated by fibre shortages and maintenance requirements.

Product innovation

A wide product range and an ability to shift production among grades are strengths for Catalyst. During 2008, the company further increased its machine flexibility and undertook new grade development in an effort to maintain sales and pricing within the markets it is best positioned to serve.

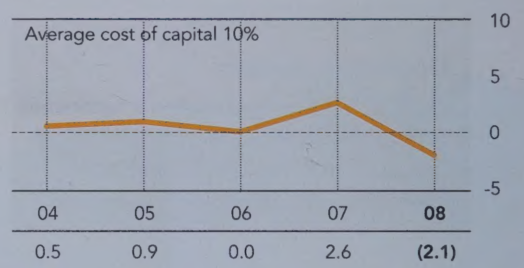
Market capitalization

($ millions)



Return on capital employed

(%)



Market value represents Catalyst's total value based on shares outstanding and share price at the end of the year. Return on capital employed is the return earned on total capital utilized by Catalyst. These measures are important indicators of ability to attract capital.

Return on capital employed excludes restructuring costs and asset-impairment charges; source: PricewaterhouseCoopers.

Action on credit facility provides competitive advantage

Catalyst moved expeditiously to replace its operating credit facility well before its 2009 maturity. During 2008 it secured a new $330-million asset-based facility with a five-year term. Early action enabled Catalyst to close this transaction before the global credit-market meltdown. The extension of the maturity date to 2013 gives the company an advantage over competitors faced with refinancing under current credit conditions. The covenants and other terms of the facility are acceptable, and the relative security it provides has been well received by customers.

Catalyst developed Electracote Brite in 2008, a higher-bright coated grade and a lower-cost alternative to No. 4 coated. It offers cost advantages to customers while meeting end-use performance requirements – and at the same time delivers acceptable returns to Catalyst.

Additional grade flexibility was developed at Powell River Division. Efforts continued to transition the No. 11 paper machine from newsprint to higher-value uncoated production and successful trials were completed to increase uncoated grade flexibility on the No. 9 paper machine.

Product innovation, in combination with a successful transition to a more streamlined and centralized service delivery team structure, was a basis for continued strong customer relations and new business wins during 2008. Product evaluations were consistently high relative to industry averages and complaints were reduced.

Customers

	2008	2007	2006	2005	2004
Evaluations vs industry average					
Coated paper	above	above	above	below	above
Uncoated paper	above	above	above	above	below
Directory paper	above	above	above	above	at
Newsprint	above	at	below	below	above
Complaints received	976	1,135	1,191	1,255	1,388
Claims paid ($ millions)	$ 0.95	$ 1.20	$ 1.25	$ 3.78	$ 3.36

2008 Performance excluding Snowflake: 828 complaints received, $0.63 million claims paid
Evaluations vs. industry average in 2008 did not include Snowflake
2006 and 2007 figures updated to reflect accounting adjustments

"Perspectives"

Sustainability and the bottom line

Is there a clear connection between voluntary corporate responses to stakeholder expectations, in areas such as environmental performance, and bottom-line performance?

"My organization has been studying the impact of sustainability practices and strategies on companies' financial returns for over a decade now, and the evidence is unequivocal: Companies that can manage the risks and capitalize on the opportunities created by the growing importance of environmental and social issues are, on the whole, simply better managed overall and tend to be financial outperformers. The "sustainability performance premium" for the 27 global forest products companies we follow has been roughly 20 per cent annually since 2006, and there's every likelihood it will increase."

- Dr. Matthew Kiernan, Chief Executive, Innovest Strategic Value Advisors, Toronto

new relationships with employees and communities

Catalyst and the communities in which its mills are located are evolving. Competitive realities require more flexible, cost-effective and smaller operations. At the same time, demographic and social developments are changing the profile of former "mill towns" as they strive to become more economically diversified.

Such changes inevitably alter the relationship between Catalyst and both its work force and host communities. In this respect 2008 was an important year as labour agreements covering most of Catalyst's Canadian workers expired and were renegotiated against a backdrop of further work force reductions. As well, the company continued to intensify talks with local governments regarding the importance of municipal tax competitiveness now and in future.

Labour agreements

New collective agreements were reached with the seven Communications, Energy and Paperworkers Union of Canada (CEP) locals that represent workers at Catalyst's four paper mills in British Columbia, and with the one Pulp, Paper and Woodworkers of Canada (PPWC) local at Crofton.

Early agreements with the CEP locals at Port Alberni were a key element of a broader arrangement that enabled the restart of the No. 4 paper machine. The agreements included early retirement and severance provisions and a new five-shift structure with earned time off built in, and will be key to achieving the $80-per-tonne labour cost target.

Based on these agreements and some municipal tax relief from the City of Port Alberni, Catalyst is making a $12-million capital expenditure to increase capacity of the thermo-mechanical pulp mill at Port Alberni, further improving the division's cost structure by reducing use of higher-cost de-inked pulp.

Agreements were reached and ratified in late 2008 with the remaining CEP locals and with the PPWC local. In all cases, the agreements are for four-year terms and provide compensation consistent with industry pattern agreements.

The PPWC agreement included establishment of a joint committee and other specific measures aimed at achieving the $80 target, while at the same time easing the impact of the transition to a smaller work force.

A Cost Reduction Team was established and people whose regular positions are eliminated will be assigned to it, reducing the need for contract, casual and overtime hours. It will operate for three years, by which time retirements are expected to bring employment down to a level consistent with cost-competitive mills.

The agreements included a commitment to complete plans which will assist Catalyst in reaching its $80 target at each of its mills. In the absence of a joint plan of action, Catalyst will work toward the $80 objective, within the terms of the collective agreements.

Employment reductions

There were 635 fewer people working at Catalyst's Canadian operations at the end of 2008 than at the beginning of the year – a reduction in the work force of approximately 21 per cent. Reductions occurred at all manufacturing facilities, however, the biggest was associated with the sawdust pulp and white top linerboard closure at Elk Falls, where the work force was reduced by roughly one-half (a result also reflecting layoffs associated with the indefinite idling of the No. 1 paper machine there).

Total employees and payroll

Year	Work force	Total paid (in millions)
2008	**2,711**	**$264**
2007	3,023	$304
2006	3,655	$316
2005	3,729	$317
2004	3,861	$321

2008 work force excluding Snowflake: 2,389

2008 payroll excluding Snowflake: $242

Work force figures exclude vacancies, previous years' figures updated for consistency; total paid figures include all salaries and wages paid, excluding benefits and severance

While individual outcomes were in many cases only confirmed by a seniority-based bumping process that extended over months, impacted employees received notification (in person in the large majority of cases) within a week of the Elk Falls closure announcement.

There was extensive written and in-person communication with employees at the division over the period in which the employment reductions were implemented, including updates on seniority lists, information sessions on topics such as pensions, and an increased frequency of staff meetings and opportunities for informal dialogue.

A joint union-management adjustment committee was formed to facilitate training and the process through which large numbers of senior employees bumped into new roles. Agreement was reached on a leave-of-absence program enabling laid-off employees to pursue other employment or educational opportunities while retaining their recall rights.

While the sawdust pulp and white top linerboard closure affected employee morale at Elk Falls, machine production and efficiency performance remained strong during 2008, a testament to the professionalism of the people affected by and involved in this difficult transition.

Tax competitiveness

Catalyst's British Columbia mills contribute, on average, 30 per cent of total municipal government property tax revenues in the four communities where they are located. Mill rates are as much as 26 times the ones applied to assessed residential values.

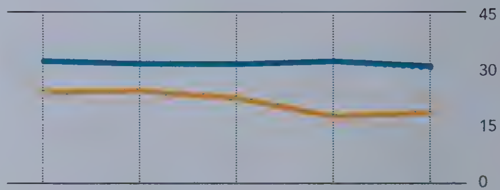
Property tax payments in 2008 in these four municipalities were $23 million (excluding the school levy), compared with an estimated $4 million to $8 million worth of municipal services consumed.

While major industry has historically carried a disproportionately large local tax burden, Catalyst believes this is not a sustainable model in a highly competitive industry. Major industry property taxes in the company's four mill operating communities in British Columbia are well above provincial and North American norms, and represent a significant competitive burden.

In 2008, Catalyst intensified discussions with government officials in these mill communities recommending a consumption-based taxation model as a fair and equitable basis to levy taxes for each taxpayer class. The company has identified municipal property tax reduction in 2009 as an urgent priority.

Property and other taxes paid

($ millions)



	04	05	06	07	**08**
Property	32.3	31.6	31.5	32.1	**31.0**
Other	23.5	23.9	22.0	17.1	**18.0**

••• 2008 total excluding Snowflake: 30.7
••• 2008 total excluding Snowflake: 17.8

— Property
— Other

2007 property tax figure updated to correct a calculation error

Note: $18.0 million in other taxes paid is included within the economic impact figures in the first table on page 21

"Perspectives"

Employees' comments

Preparation of this report involved a confidential e-survey, through which employees provided input on topics to include and on performance and outlooks. The following were among comments from various employees regarding Catalyst's priorities for 2009.

"The biggest challenge for the year will be improving safety performance and maintaining productivity and quality, with the significant personnel and manning changes that are occurring as a result of closures and the $80-per-tonne labour cost target."

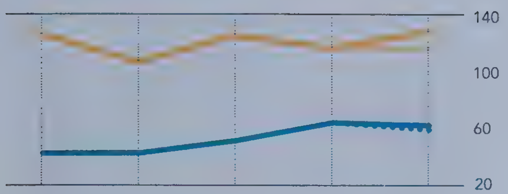
"Managing the difficult economic situation in the context of shrinking demand for our products; continuing to limit the effect on our customers of our internal issues such as downsizing, fibre supply and variability, machine closures and labour issues."

"Job loss or the threat of job loss is such a huge negative distraction on people's mind. It may not be possible but would be nice for management to say, 'We can make it work with the people and the machines we have right now'."

"In terms of sustainability I see safety as most important. Ground is being lost, people are giving up and our reputation amongst the investment analysts and shareholders is at risk if higher than expected numbers of people continue to be injured."

"Restore investor confidence by stabilizing labour relations and focusing on the future by establishing a clear vision of what success looks like. Right now, it appears as if there is no plan and we do not project the image of a strong forward-thinking company."

Total LTIs and MIs

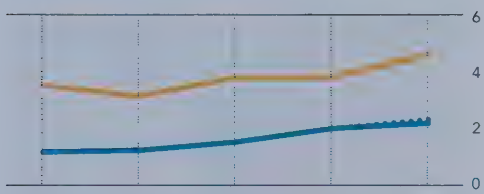


04	05	06	07	**08**	
42	42	51	64	**62**	LTI
125	105	124	115	**127**	MI

••• 2008 performance excluding Snowflake: 59
••• 2008 performance excluding Snowflake: 115

LTI – Total number of lost-time injuries (requiring employees to miss work)
MI – Total number of medical incidents (requiring medical attention)

LTI frequency and MIR



04	05	06	07	**08**	
1.15	1.21	1.51	2.06	**2.19**	LTI frequency
3.43	3.03	3.68	3.70	**4.49**	MIR

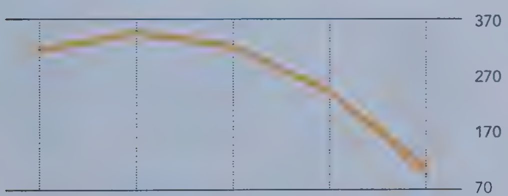
••• 2008 performance excluding Snowflake: 2.32
••• 2008 performance excluding Snowflake: 4.53

LTI frequency – Number of lost-time injuries per 200,000 hours worked
MIR – Number of medical incidents per 200,000 hours worked

2006 and 2007 figures updated to reflect post-year-end adjustments based on injury progression/duration

Total charitable donations

($ thousands)



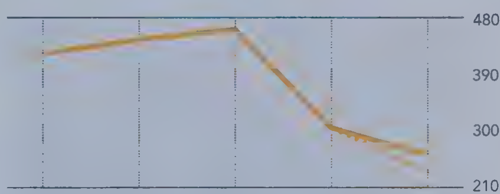
04	05	06	07	**08**
313	345	320	239	**102**

••• 2008 performance excluding Snowflake: 88

Donations to Canadian and U.S. charities as reported for tax purposes

Total United Way donations

($ thousands)



04	05	06	07	**08**
420	443	460	300	**255**

••• 2008 performance excluding Snowflake: 229

Employee plus corporate donations

sustainable product pedigrees

Long-standing concern about the environmental impacts of manufacturing and related industrial processes has recently shifted, broadened and become more concrete. Consumers, who want to make a difference through their own choices, increasingly seek assurances that specific products contain responsibly sourced raw materials and have additional sustainability attributes embedded in them.

In the forest products context, this translates into a desire for certainty that wood fibre came from well-managed forests or other sustainable sources, and such assurances are commonly formalized through independent certification programs. There is also growing interest, as there is across all forms of consumption, in the carbon footprint of paper.

Catalyst sees effective responses to these imperatives as not only a requirement of doing business with many customers, but also as a key opportunity to competitively differentiate what would otherwise be inter-changeable commodities.

While not a forest manager, Catalyst has long engaged with its suppliers to advance and verify sustainable forest management, and has developed extensive recycled production capacity. In addition, Catalyst has achieved sector-leading carbon and energy management that reduces the environmental footprint of its production, and has enabled it to provide manufactured carbon-neutral products.

Fibre supplies

Fibre supplies that are either recycled or carry a credible third-party certification are the most likely to provide the sustainability assurances customers want. While various certification systems are actively used in North America, Forest Stewardship Council (FSC) certification has the strongest market appeal, at least in particular segments.

Recycled production

In 2008, Catalyst acquired a second exclusively recycled manufacturing facility. The Snowflake recycled newsprint mill added 347,000 tonnes of capacity, representing nearly 15 per cent of Catalyst's total production capacity.

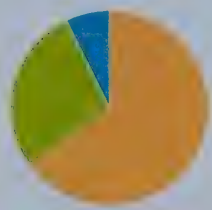
Catalyst has also operated the Paper Recycling Division at Coquitlam since 2003. It produces de-inked pulp for use at Catalyst's British Columbia paper mills, and is an important part of the overall fibre-supply mix for these facilities.

Operational changes at PRD resulted in a one-per-cent increase in yield, or finished product per tonne of recovered paper in 2008 and in an associated seven-per-cent reduction in energy consumption.

Use of recovered paper lessens demands on virgin fibre supplies, allows for less energy-intensive production and prevents carbon dioxide releases that would otherwise occur when paper decomposes in landfills.

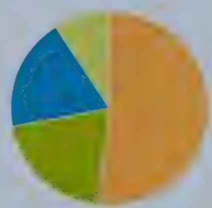
Through the combined production of newsprint at Snowflake and de-inked pulp at PRD, recovered paper made up 19 per cent of Catalyst's total fibre supply in 2008 (up from six per cent in 2007), and the company's finished products had an average recycled content of 17 per cent (also up from six per cent in 2007).

Geographic breakdown: non-recycled fibre



1 BC Coast **65%**
2 BC Interior **28%**
3 US Pacific Northwest **7%**

Fibre type and percentage



1 Sawmill wood chips **52%**
2 Pulp logs **20%**
3 Recovered paper **19%**
4 Sawdust **9%**

Certified production

Catalyst actively encourages its fibre suppliers to obtain third-party certification, and can verify using the PricewaterhouseCoopers Independent Chain of Custody Standard, that select products contain only fibre that is certified to one of the three main forest-management standards.[1] Tonnage of certified product sold and number of customers purchasing it both increased significantly in 2008.

Catalyst expects to expand its use of FSC certification based on work done in 2008, in anticipation of the availability of the first significant supply of FSC-certified fibre from coastal British Columbia forests (see page 22).

A new chain-of-custody management system, development of which was under way at the end of 2008, is intended to provide for either FSC or PEFC[2] certification and labeling of select Catalyst products. Paper would be certified based on use of fibre from either FSC- or SFI-certified forests and/or post-consumer waste. Market pulp would be certified based on use of fibre from FSC-certified forests and/or fibre that meets the FSC controlled-wood standard.

These certifications will complement an existing FSC certification at PRD, which verifies production using post-consumer waste, and which is expected to be extended to Snowflake in 2009.

Carbon management

A long-standing focus on reduced energy use and extensive self-generation using renewable and carbon-neutral fuels (biomass) are key aspects of Catalyst's carbon-management approach and have served to reduce fossil fuel reliance and energy costs.

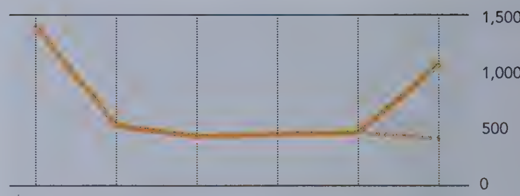
They are also the foundation for the Catalyst Cooled™ product offering. Carefully selected offsets counter-balance the limited carbon emissions associated with the manufacture of these products. Launched in 2007 in partnership with Rolling Stone magazine – the first such mass-market usage – Catalyst Cooled™ generated additional sales during 2008.

Of further note is Catalyst's particular expertise with lighter basis-weight papers. Not only is less fibre required for the manufacture of these products, but they require less energy throughout the production, shipping and printing stages.

In 2008, 73 per cent of Catalyst's total energy use came from renewable sources (87 per cent at its Canadian operations).

GHG emissions absolute

(thousand tonnes CO_2e)



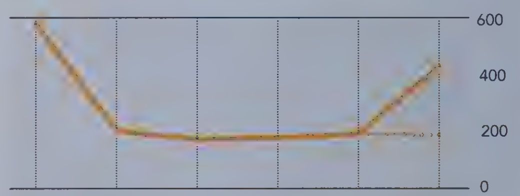
1990	2004	05	06	07	**08**
1,383	494	399	419	432	**1,039**

••• 2008 performance excluding Snowflake: 380

2006 and 2007 figures updated to reflect calculation adjustments

GHG emissions intensity

(kg CO_2e per tonne)

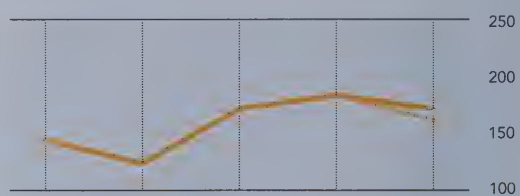


1990	2004	05	06	07	**08**
574	190	159	165	180	**422**

••• 2008 performance excluding Snowflake: 175

GHG emissions indirect

(World Resources Institute Scope 2, thousand tonnes CO_2e)



04	05	06	07	**08**
141	120	169	181	**169**

••• 2008 performance excluding Snowflake: 159

1 Canadian Standards Association, Sustainable Forestry Initiative (SFI), and Forest Stewardship Council

2 Programme for the Endorsement of Forest Certification schemes

Carbon and climate change

GHG emissions at Catalyst's Canadian operations in 2008 were 73 per cent below 1990 levels on an absolute basis and 70 per cent below 1990 levels on an intensity basis. Catalyst committed to a 70-per-cent reduction in absolute GHG emissions at these operations by 2010, relative to a 1990 baseline, as a member of the World Wildlife Fund's Climate Savers program.

Absolute GHG emissions from Canadian operations in 2008 were down 12 per cent from 2007. While this was partly a result of lower production, GHG emissions at these operations were also reduced in 2008 by three per cent from 2007 on an intensity basis, and they continue to be at or significantly below the Canadian industry average (246 kg CO_2e per tonne).

Shortages of biomass – in forms such as bark, wood shavings and sawdust – continued during 2008, and limited Catalyst's ability to self-generate carbon-neutral energy. This impacts GHG levels, and in 2008 it increased the extent of the payments required under a newly implemented carbon (fossil fuel) tax in British Columbia.

Catalyst's overall carbon footprint increased in 2008 with the Snowflake acquisition, a facility where the main energy source is coal and which generates all of its own electricity. In contrast to British Columbia, Arizona is largely fossil fuel-dependent for electricity generation and coal is widely used.

GHG emissions intensity at Snowflake was up 15 per cent in 2008 from 2007. Contributing factors are a return to the use of lower-quality coal (see page 23) and increased landfilling of solid waste.

Catalyst implemented quarterly carbon accounting procedures at its operations in 2008; maintained its carbon accounting practices to the ISO 14064:2006 GHG accounting standard; and was again recognized as a Climate Disclosure Leader in Canada through the Carbon Disclosure Project, which acknowledges superior and financially relevant climate-risk transparency.

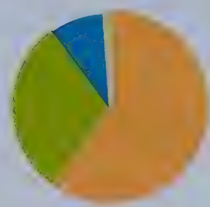
See "GHG Regulatory Landscape", page 22, for further related discussion.

Energy efficiency and demand management

Energy efficiency, in addition to being a sustainability merit in and of itself, has been one of the foundations of Catalyst's strong carbon-related performance. Through demand management efforts, the company also contributes to efficiency and carbon reductions beyond the boundaries of its own operations.

There was limited change in intensity of fuel energy and electricity use at Catalyst's Canadian operations in 2008, which were down one per cent and up five per cent respectively. The five-per-cent increase reflected a shift to a higher proportion of paper production, which is more electricity-intensive than pulp production.

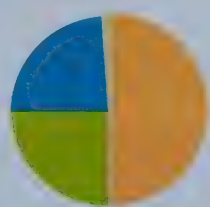
Energy mix and renewability – Canadian operations



1. Biomass fuels **60%** (100% renewable)
2. Electrical energy **30%** (91% renewable)
3. Fossil fuels **9%**
4. Alternative fuels **1%** (2% renewable)

Total renewable **87%**

Energy mix and renewability – corporate-wide



1. Biomass fuels **50%** (100% renewable)
2. Electrical energy **25%** (91% renewable)
3. Fossil fuels **24%**
4. Alternative fuels **1%** (2% renewable)

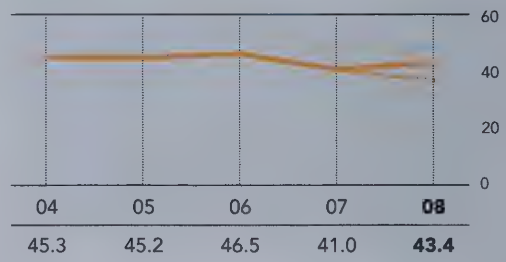
Total renewable **73%**

Conservation initiatives continued and focused on reducing wastes in forms such as compressed air loss and unnecessary lights. However, a slight reduction (0.6 per cent) in purchased energy requirements resulted primarily from production curtailments. Self-generation was reduced by about 25 per cent in 2008, largely due to biomass availability.

Catalyst continued to assist British Columbia's electricity utility with demand management. Catalyst is among major industrial customers that have contracted with BC Hydro to implement 150-MW curtailments on short notice during peak-demand times. This provides planning latitude that helps BC Hydro avoid costs and environmental impacts associated with fossil fuel-based back-up generation, and Catalyst is compensated for its involvement in this program and for the energy associated with any curtailments implemented.

Total fuel energy use

(fossil fuels and biomass)
(millions of GJ)

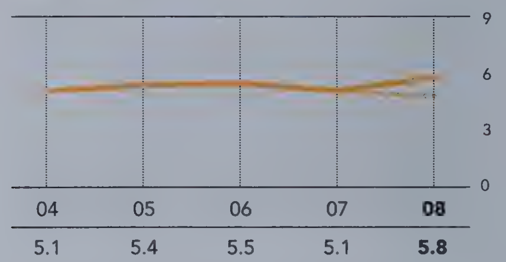


2008 performance excluding Snowflake: 36.9

2007 figure updated to reflect calculation adjustments

Total electricity use

(purchased and self-generated)
(millions of MWh)

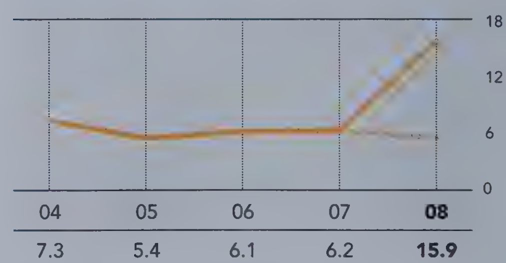


2008 performance excluding Snowflake: 4.8

2007 figure updated to reflect calculation adjustments

Total fossil fuel use

(millions of GJ)



2008 performance excluding Snowflake: 5.4

"Perspectives"
Market demand

With sustainable forest management now a well-entrenched factor in forest products purchasing decisions, what additional issues and criteria may come to guide customer choices in the years ahead?

"There's likely to be more of a focus on the carbon footprint of the magazine supply chain. Climate change is a priority for the Obama administration, and will grow in importance for financial markets and with the public. For paper purchasers, the focus will likely be on the types of energy used by mills and their power providers; land conversion, especially in the tropics; and the comparative footprints of paper and digital delivery. Recovery of magazines will also grow in importance in an effort to reduce landfill methane releases and out of concern about future fibre shortages."

- David Refkin; President, National Recycling Coalition; Treasurer, Heinz Center for Science, Economics and the Environment; New City, New York

data and additional reporting

Catalyst continues to strive to provide progressive and safe working environments, to make meaningful economic and other contributions within the jurisdictions where it operates, and to achieve further improvement across a wide range of measures of environmental performance.

Social and Economic

Compensation and representation

Catalyst provides a competitive base salary and benefits package for non-unionized employees, and in most cases provides additional performance-based compensation. Most non-unionized employees have defined contribution pension plans, although some longer-term employees are grandfathered in a defined benefit plan.

Compensation, benefits and pensions for represented employees are specified in collective agreements. Pensions for most of these employees are defined benefit.

Snowflake employees, at the time of the acquisition, transitioned to pension plans providing substantially comparable benefit and pension coverage.

Unions represent approximately 75 per cent of Catalyst employees. In Canada, these are: the Communications, Energy and Paperworkers Union of Canada; the Pulp, Paper and Woodworkers of Canada; the Canadian Office and Professional Employees Union; and the Christian Labour Association of Canada. In the United States, these unions are: the United Steelworkers of America; the International Brotherhood of Electrical Workers; the Carpenters Union; and the United Transportation Union.

Safety

There was improvement in the number of lost-time injuries and in the severity measure at Canadian operations in 2008, while medical incidents remained at the same level compared with 2007. But overall frequency measures were up and performance consistently fell short of targets. A notable exception was the strong performance at Powell River Division, where all targets were met or exceeded. There were no lost-time injuries or medical incidents in 2008 at either Paper Recycling Division or the corporate offices. Snowflake's safety performance in 2008 was generally comparable to performance in 2007.

Roll-out of a standardized tiered audit process at all operations was completed during 2008. Developed at Powell River, tiered audits increase the scope of management's direct observation of and engagement with employees regarding safety-related issues.

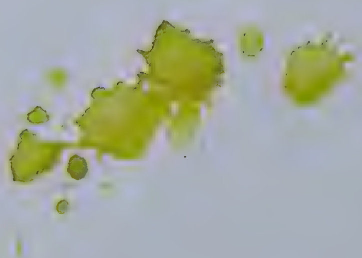
Plans for 2009 include hiring a full-time safety professional with corporate-wide responsibilities, while Snowflake will follow-up on an external safety audit commissioned in late 2008. Catalyst remains committed to cutting both lost-time injuries and medical incidents in half by 2010, relative to 2006.

Health and safety

	2008 Corporate-wide	2008 Targets (corporate-wide)	2008 Canadian operations	2007	2006	2005	2004
Lost-time injuries [1]	**62**	**40**	**59**	64	51	42	42
Medical incidents [2]	**127**	**95**	**115**	115	124	105	125
Lost-time injury frequency [3]	**2.19**	**1.46**	**2.32**	2.06	1.51	1.21	1.15
Medical incident rate [4]	**4.49**	**3.47**	**4.53**	3.70	3.68	3.03	3.43
Severity [5]	**104.5**	**80.0**	**99.5**	118	57	40	33

2006 and 2007 figures updated to reflect post-year-end adjustments based on injury progression/duration

1 Incidents requiring employees to miss work
2 Incidents requiring medical attention
3 Number of lost-time injuries per 200,000 hours worked
4 Number of medical incidents per 200,000 hours worked
5 Average number of days injuries caused employees to miss work



Aboriginal relations

During 2008, the Hupacasath First Nation accepted an offer to purchase two Port Alberni-area dams from Catalyst. Originally part of the infrastructure for a pulp mill, they are now used mainly to regulate water flows for the benefit of fish. Closure of the offer was extended into 2009 to facilitate transfer of a water license.

A We Wai Kai First Nation appeal of a 2005 permit amendment allowing use of coal as a supplemental fuel at Elk Falls Division was withdrawn during 2008. There were some discussions with the We Wai Kai regarding potential engagement on joint business ventures in the forest products sector. Catalyst, however, declined involvement in a We Wai Kai aquaculture funding proposal.

Catalyst is among the more than 3,500 claimants in the Little Colorado River Adjudication filed in 1978 and pending in the Superior Court of Arizona. Indian tribes and the United States contend (and Catalyst denies) that mill water withdrawals impermissibly interfere with water rights. Timing for the adjudication of the various claims remains uncertain.

Economic impact

Catalyst makes a substantial contribution to the economies of the communities where it operates and the jurisdictions within which those communities are located, and to the economies of various other jurisdictions from within which it purchases goods and services. This included the following in 2008:

2008 spending

($ millions)	Canadian operations	Snowflake	All operations
Fibre and other raw materials (furnish)	$ 413	$ 70	$ 483
Energy	233	17	251
Other purchases	578	48	626
Capital spending	34	8	42
Totals	$ 1,258	$ 144	$ 1,402

Variations on totals due to rounding

With the addition of salaries and wages ($264 million) and taxes paid ($49 million), as reported in the table below, the total direct economic impact of Catalyst's activities during 2008 was $1.7 billion.

Taxes

($ millions)	2008	2007	2006	2005	2004
Property taxes					
Crofton	8.5	8.8	8.3	8.0	7.9
Elk Falls (Campbell River, B.C.)	7.6	8.0	8.1	8.1	8.4
Paper Recycling (Coquitlam, B.C.)	1.4	1.4	1.4	1.3	1.3
Port Alberni	6.5	7.2	7.4	7.4	7.7
Powell River [1]	6.0	5.9	6.1	6.3	6.5
Snowflake	0.4	–	–	–	–
Corporate and support offices [2]	0.6	0.8	0.2	0.5	0.5
Total	31.0	32.1	31.5	31.6	32.3
Other taxes [3,4]	18.0 [5]	17.1	22.0	23.9	23.5

1 2007 figure updated to correct a calculation error
2 2004 includes a rebate received after an appeal of 1996-1999 property taxes by head office landlord
3 Includes income taxes; large corporation capital taxes; capital, logging and sales taxes; BC carbon tax
4 2008 total excluding Snowflake: $17.8
5 $18.0 million in other taxes paid is included in the economic impact figures in the 2008 spending table above

Environmental

Great Bear Rainforest

Catalyst continued to engage with environmental groups and other stakeholders regarding the transition to ecosystem-based management (EBM) in the Great Bear Rainforest on British Columbia's central coast, by March 31, 2009. Engagement occurs mainly through Catalyst's membership in the Coast Forest Conservation Initiative (CFCI).

Work to meet implementation milestones, including on-the-ground harvesting and management changes, continued in 2008. A Forest Stewardship Council (FSC) audit was conducted in late 2008 to identify gaps between the EBM framework and FSC standards. CFCI members will review the audit outcome and make a decision regarding pursuit of certification in early 2009.

Biomass generation at Snowflake

A third-party-owned, 25-MW energy generating facility was commissioned on the Snowflake mill site during 2008. While producing power for sale rather than mill use, the facility nevertheless provides various environmental and economic benefits.

Most notably, it represents a productive use of sludge from the mill, which together with locally sourced forest thinnings, makes up the facility's fuel. The facility is expected to consume 75 per cent of Snowflake's total sludge production of approximately 250 tonnes per day to produce energy. This prevents both the costs and GHG emissions that would otherwise be associated with landfilling the sludge.

The energy produced is carbon-neutral and state-approved as green energy, and will assist its purchasers in meeting regulatory requirements for renewable energy use.

GHG regulatory landscape

Catalyst operates largely in British Columbia – a leading North American jurisdiction in terms of the breadth and stringency of its climate change initiatives. These include a broad-based carbon tax and a commitment to cut province-wide emissions by one-third by 2020, relative to 2007 levels. Catalyst also operates in Arizona, which has committed to reduce its emissions to 2000 levels by 2020, and to cut them to half of 2000 levels by 2040.

Catalyst is actively engaged in GHG-related policy development at various levels, including planning for a regional cap-and-trade system through the Western Climate Initiative. Catalyst's priorities are to ensure that it receives adequate recognition for the reductions already achieved at its Canadian operations, and that there is appropriate treatment of co-generation from renewable fuels.

Clean production initiative

Catalyst worked in partnership with World Wildlife Fund Canada in 2008 to roll out the Clean Production Initiative (CPI) at its Canadian operations. This involves a transition to direct measurement of priority emissions. Testing to date has confirmed that the scope of such emissions is frequently smaller than previous estimates suggested and has provided a basis for emissions reduction planning.

Procurement staff were briefed on substance-specific and supply-region issues related to chemical supplies. Chemical reductions, together with efforts to reduce fibre losses in mills, will be components of the CPI going forward. Cost savings associated with reduced fibre losses alone are expected to more than offset CPI implementation costs. Community advisory forums are being used to inform and engage local residents regarding the CPI.

Air

Odour

Total reduced sulphur (TRS) results from kraft pulp production and has been a long-standing focal point at Crofton and Elk Falls divisions. On average in 2008, Catalyst's Canadian operations met the relevant provincial ambient air quality standards 99.7 per cent of the time.

Crofton completed equipment replacements and upgrades in 2008 to improve the reliability of odourous gas collection. Elk Falls kraft pulp production ceased during 2008.

Powell River experienced odour issues during an unforeseen maintenance-related shut-down of a power boiler in July 2008. This resulted from on-site stockpiling of odourous sludge that would normally be used as fuel. Odour impacts were, however, managed effectively during a longer planned shut-down in December.

Particulates

Particulates consist of extremely small air-borne particles that originate from industrial combustion processes and various other sources. In 2008, the company's Canadian divisions met the relevant provincial ambient air quality standards 100 per cent of the time.

Particulate emissions were up at Crofton (but below 2006 levels) in part as a result of high salt content in the bark available to this division. However, salt-based particulates do not have the same health impacts associated with them as do other types, and discussions were initiated with provincial regulatory authorities regarding possible allowances in this regard, so as to avoid constraints on carbon-neutral energy generation.

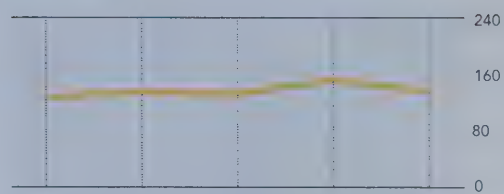
Snowflake upgraded emissions-control equipment on its main power boiler in 2008, improving its ability to capture both particulates and sulphur oxides and enabling it to revert to use of higher sulphur-content and more economical coal supplies (larger volumes of which are required to generate the same energy). This change in supplies accounted for increases in particulates and sulphur oxides during 2008. Nevertheless, air-quality permit compliance was maintained.

Other issues

Power boiler dioxin and furan emissions at Catalyst's Canadian paper mills were down significantly in 2008. While operational measures likely contributed, unrelated factors such as testing conditions and the salt content in biomass fuels heavily influence results, which can be highly variable. Dioxins emissions are a result of salt in bark from logs that have been transported in marine booms.

Releases of ozone-depleting substances – use of which is being phased out at Catalyst – are reportable above defined thresholds in both British Columbia and Arizona. Releases totalled 337 kg in 2008 (see Appendix 1, page 32).

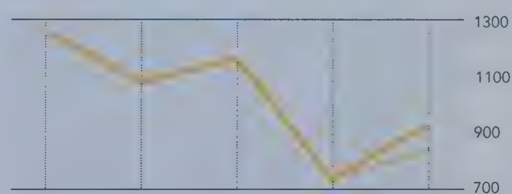
Total TRS
(tonnes/year)



04	05	06	07	**08**
130	136	134	154	**138**

Relevant at Canadian operations only

Total particulate
(tonnes/year)

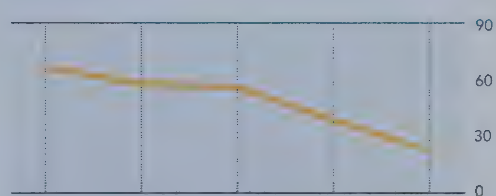


04	05	06	07	**08**
1,266	1,085	1,170	733	**932**

••• 2008 performance excluding Snowflake: 841

Previous years' particulate results have been updated; previously reported figures reflected permit limits rather than actual emissions at one operation and were, therefore, significantly overstated

Power boiler dioxin and furan emissions
(grams/year)



04	05	06	07	**08**
67.7	58.7	57.2	39.0	**22.8**

Relevant at Canadian operations only

2006 and 2007 figures updated, a calculation error resulted in overstatement of 2007 results

All figures above based on actual test results; NPRI data may differ because they include other sources and utilize emissions factors

Air emissions (by mill)

	2008	2007	2006	2005	2004
Crofton					
Total GHGs as kg CO_2e/year [1]	**162,866,000**	149,920,000	131,293,000	127,325,000	153,407,000
Total GHGs as kg CO_2e/adt [1]	**224**	194	179	166	196
Particulate matter kg/day	**906**	722	1,059	850	1,235
Particulate matter kg/adt	**0.43**	0.34	0.53	0.40	0.58
Sulphur Oxides kg/day	**9,392**	11,026	11,324	6,210	9,281
Sulphur Oxides kg/adt	**4.45**	5.20	5.64	2.96	4.34
TRS kg/day	**192**	245	195	207	209
TRS kg/adt [2]	**0.180**	0.211	0.197	0.195	0.175
Power Boiler Dioxin ng/m³ TEQ	**0.03**	0.09	0.05	0.08	0.32
Ambient TRS % compliance A level 24-hr average [1]	**99.1**	97.7	98.3	95.8	97.8
Ambient PM2.5 98th percentile (ug/m³) [3]	**13.9**	13.9	13.6	14.5	n/a
Ambient PM10 % compliance A level [3]	**100**	100	99.99	100	100
Elk Falls					
Total GHGs as kg CO_2e/year	**139,351,000**	170,967,000	213,800,000	185,201,000	239,409,000
Total GHGs as kg CO_2e/adt	**246**	248	257	229	299
Particulate matter kg/day	**1,329**	1,215	2,019	2,005	1,995
Particulate matter kg/adt	**0.68**	0.54	0.84	0.84	0.86
Sulphur Oxides kg/day [4]	**2,089**	1,881	2,500	2,093	2,607
Sulphur Oxides kg/adt [4]	**1.00**	0.84	1.04	0.95	1.19
TRS kg/day	**184**	176	171	165	146
TRS kg/adt	**0.23**	0.19	0.22	0.23	0.28
Power Boiler Dioxin ng/m³ TEQ	**0.04**	0.37	0.13	0.04	0.05
Ambient TRS % compliance A level 24-hr average	**100**	99.7	98.6	99.5	97.3
Ambient PM2.5 98th percentile (ug/m³)	**11.9**	13.1	12.8	25.7	n/a
Ambient PM10 % compliance A level	**100**	100	100	100	99.2
Paper Recycling					
Total GHGs as kg CO_2e/year	**6,100,000**	7,653,240	5,603,000	8,173,113	7,054,236
Total GHGs as kg CO_2e/adt	**47**	54	40	56	47
Particulate matter kg/day [5]	**0.12**	0.27	0.49	0.30	0.33
Particulate matter kg/adt [5]	**0.000**	0.001	0.001	0.001	0.001
Sulphur Oxides kg/day	**0.040**	1.820	1.893	0.082	1.370
Sulphur Oxides kg/adt	**0.0001**	0.0046	0.0043	0.0002	0.0034

1 2006 and 2007 figures updated to reflect calculation adjustments
2 2007 figure updated to correct calculation error involving use of total tonnage instead of pulp tonnage only
3 2007 figures updated to reflect calculation adjustments
4 2006 and 2007 figures updated to correct a calculation error that resulted in previous understatements
5 All previous years' particulate results have been updated; previously reported figures reflected permit limits rather than actual emissions and were, therefore, significantly overstated

adt – Air-dried tonnes
n/a – Not available
ng – Nanogram
PM – Particulate matter
TEQ – Dioxin equivalent units
ug – Microgram

A complete glossary of terms and definitions is on page 35

Air emissions (by mill) (continued)

	2008	2007	2006	2005	2004
Port Alberni					
Total GHGs as kg CO_2e/year	**36,708,000**	61,619,000	44,977,000	52,844,000	61,231,000
Total GHGs as kg CO_2e/adt	**132**	215	134	153	139
Particulate matter kg/day	**20**	40	98	107	215
Particulate matter kg/adt	**0.024**	0.043	0.100	0.114	0.180
Sulphur Oxides kg/day	**427**	477	603	660	900
Sulphur Oxides kg/adt	**0.45**	0.50	0.65	0.70	0.74
Power Boiler Dioxin ng/m^3 TEQ	**0.27**	0.41	0.36	0.12	0.17
Ambient PM10 % compliance A level	**100**	100	100	100	100
Powell River					
Total GHGs as kg CO_2e/year	**34,557,000**	41,621,000	22,917,000	24,978,000	33,023,000
Total GHGs as kg CO_2e/adt	**73.6**	85.9	48.9	56.1	77.5
Particulate matter kg/day [1]	**42**	33	28	9	23
Particulate matter kg/adt	**0.03**	0.02	0.02	0.01	0.02
Sulphur Oxides kg/day [1]	**277**	189	126	235	112
Sulphur Oxides kg/adt	**0.215**	0.143	0.098	0.193	0.096
Power Boiler Dioxin ng/m^3 TEQ [2]	**0.01**	0.03	0.02	0.01	0.02
Ambient TRS % compliance A level 24-hr average	**100**	100	100	100	100
Ambient PM2.5 98th percentile (ug/m^3)	**9.0**	6.9	14.0	7.0	n/a
Ambient PM10 % compliance A level	**100**	100	100	100	100
Snowflake (all figures are for full year)					
Total GHGs as kg CO_2e/year	**907,823,000**	871,486,485	866,707,808	865,175,394	756,182,779
Total GHGs as kg CO_2e/adt	**2,264**	1,961	1,900	1,902	1,773
Particulate matter kg/day	**345**	267	365	346	287
Particulate matter kg/adt	**0.31**	0.21	0.29	0.28	0.25
Sulphur Oxides kg/day	**6,330**	3,844	4,710	3,769	5,021
Sulphur Oxides kg/adt	**5.76**	3.07	3.77	3.02	4.30

1 Conclusive reasons for increases in SO_2 and particulates at Powell River could not be determined, although possible factors have been identified and will be explored further if 2009 test results warrant

2 2004 and 2005 figures updated to reflect calculation adjustments

A complete glossary of terms and definitions is on page 35

Water

Use and impacts

Intensity of water use was down three per cent at Catalyst's Canadian operations in 2008 compared with 2007. Including Snowflake, water use intensity was down six per cent from 2007, reflecting the lower water usage associated with a larger component of recycled production.

Powell River had good performance, in significant part due to the addition in 2007 of a bleach plant cooling system, which reduced the need for water to be added to cool effluent in the summer.

Catalyst's Canadian mills continued their involvement in the federal Environmental Effects Monitoring program. Work during 2008 largely focused on study design, with interpretative reports for the previous cycle having been completed in 2007. Recent results generally indicate decreases in concentrations of contaminants such as dioxins and furans.

Other issues

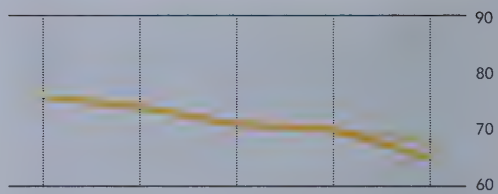
Complex issues arose at Port Alberni relating to two dams Catalyst owns on Great Central Lake. Updated storm estimates required lowering the minimum water level by approximately one metre to avoid possible over-topping and flooding. Catalyst worked with the federal fisheries department, residents, hatcheries and other stakeholders through the Somass Basin Water Management Plan Forum to manage the impacts.

The dams are currently used mainly to regulate water flows for the benefit of fish, and they are expected to be sold to the Hupacasath First Nation in early 2009 (see page 21).

corporate-wide water use intensity was down by six per cent

Company average water use

(m^3/tonne)

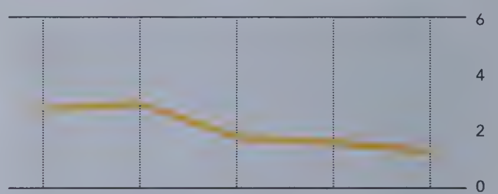


04	05	06	07	**08**
76	74	71	70	**65**

2008 performance excluding Snowflake: 68

Total BOD

(thousands of tonnes/year)

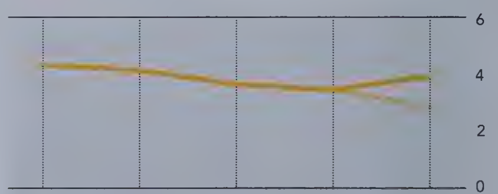


04	05	06	07	**08**
2.8	3.0	1.8	1.6	**1.3**

Relevant at Canadian operations only

Total TSS

(thousands of tonnes/year)

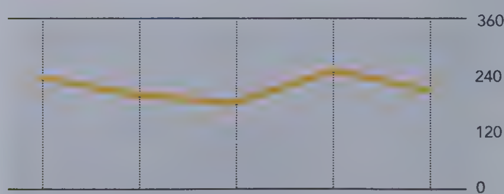


04	05	06	07	**08**
4.4	4.2	3.7	3.5	**4.0**

2008 performance excluding Snowflake: 2.9

Total AOX

(tonnes/year)



04	05	06	07	**08**
238	201	184	254	**211**

Relevant at Canadian operations only

Effluent (by mill)

	2008	2007	2006	2005	2004
Crofton					
TSS kg/day	3,095	2,731	3,376	3,311	3,674
TSS kg/adt	1.6	1.3	1.7	1.5	1.8
BOD kg/day	1,012	864	1,230	1,270	1,566
BOD kg/adt	0.51	0.41	0.61	0.59	0.76
AOX kg/day	408	448	305	330	422
AOX kg/adt [1]	0.32	0.34	0.31	0.31	0.33
2378TCDD ppq	n/d	n/d	n/d	n/d	n/d
2378TCDF ppq	n/d	n/d	n/d	n/d	n/d
Trout toxicity % compliance	100	100	100	100	94
Elk Falls					
TSS kg/day	2,071	3,737	3,590	4,970	4,950
TSS kg/adt	1.3	2.0	1.6	2.3	2.3
BOD kg/day	1,390	2,404	2,600	5,000	4,150
BOD kg/adt	0.90	1.26	1.14	2.26	1.89
AOX kg/day	168	248	199	220	231
AOX kg/adt	0.22	0.33	0.25	0.35	0.41
2378TCDD ppq	n/d	n/d	n/d	n/d	n/d
2378TCDF ppq	n/d	4.1	n/d	n/d	n/d
Trout toxicity % compliance	100	100	100	96	94
Paper Recycling					
TSS kg/day	443	713	396	428	387
TSS kg/adt	1.2	1.8	0.9	1.1	1.0
BOD kg/day	703	1,210	1,103	603	467
BOD kg/adt	1.96	3.07	2.51	1.50	1.15
Trout toxicity % compliance	n/a	n/a	100	100	100
Port Alberni					
TSS kg/day	352	389	354	500	1,060
TSS kg/adt	0.5	0.5	0.4	0.6	0.9
BOD kg/day	290	305	400	450	700
BOD kg/adt	0.38	0.38	0.43	0.49	0.60
Trout toxicity % compliance	100	100	100	100	100
Powell River					
TSS kg/day	1,994	1,991	2,465	2,400	2,100
TSS kg/adt	1.5	1.5	1.9	1.7	1.5
BOD kg/day	745	797	778	1,000	700
BOD kg/adt	0.6	0.6	0.6	0.7	0.5
Trout toxicity % compliance	100	96.6	100	100	100
Snowflake (all figures are for full year) [2]					
TSS kg/day	4,009	2,893	3,068	1,894	1,744
TSS kg/adt	3.5	2.4	2.5	1.5	1.5

1 2007 figure updated to reflect calculation adjustments

2 TSS levels, while up significantly, remained within permit levels and operational changes were made during scheduled maintenance of the effluent treatment plant in late 2008

n/d – Non-detectable (test result below two parts per quadrillion)

n/a – Not applicable

2378TCDD, 2378TCDF – Specific dioxin and furan substances

A complete glossary of terms and definitions is on page 35

Water and energy use (by mill)

	2008	2007	2006	2005	2004
Crofton					
Water use m^3/adt	**73**	68	65	68	66
Fuel energy usage GJ [1]	**17,298,684**	17,683,893	17,946,830	17,290,671	17,465,973
Fuel energy intensity GJ/adt [1]	**23.75**	22.86	24.50	22.58	22.36
Electricity usage MWh [1]	**1,367,436**	1,390,892	1,364,452	1,312,911	1,272,867
Electricity intensity MWh/adt [2]	**1.88**	1.80	1.86	1.71	1.63
Elk Falls					
Water use m^3/adt	**67**	70	68	68	73
Fuel energy usage GJ	**9,452,238**	12,313,942	15,778,439	14,609,573	14,140,120
Fuel energy intensity GJ/adt	**16.71**	17.83	18.99	17.30	17.63
Electricity usage MWh	**1,346,489**	1,519,768	1,859,371	1,838,519	1,609,245
Electricity intensity MWh/adt	**2.38**	2.20	2.24	2.28	2.01
Paper Recycling					
Water use m^3/adt	**9**	9	9	12	11
Fuel energy usage GJ [1]	**104,183**	138,675	137,617	172,284	151,746
Fuel energy intensity GJ/adt [1]	**0.80**	0.97	0.97	1.18	1.02
Electricity usage MWh	**57,546**	67,033	67,326	71,286	73,441
Electricity intensity MWh/adt	**0.44**	0.47	0.48	0.49	0.50

1 2007 figures updated to reflect calculation adjustments

2 2006 and 2007 figures updated to reflect calculation adjustments

GJ – Gigajoules

MWh – Megawatt-hours

Fuel energy measures include all purchased fuels and self-generated biomass (black liquor); electricity measures include all purchased and self-generated electricity

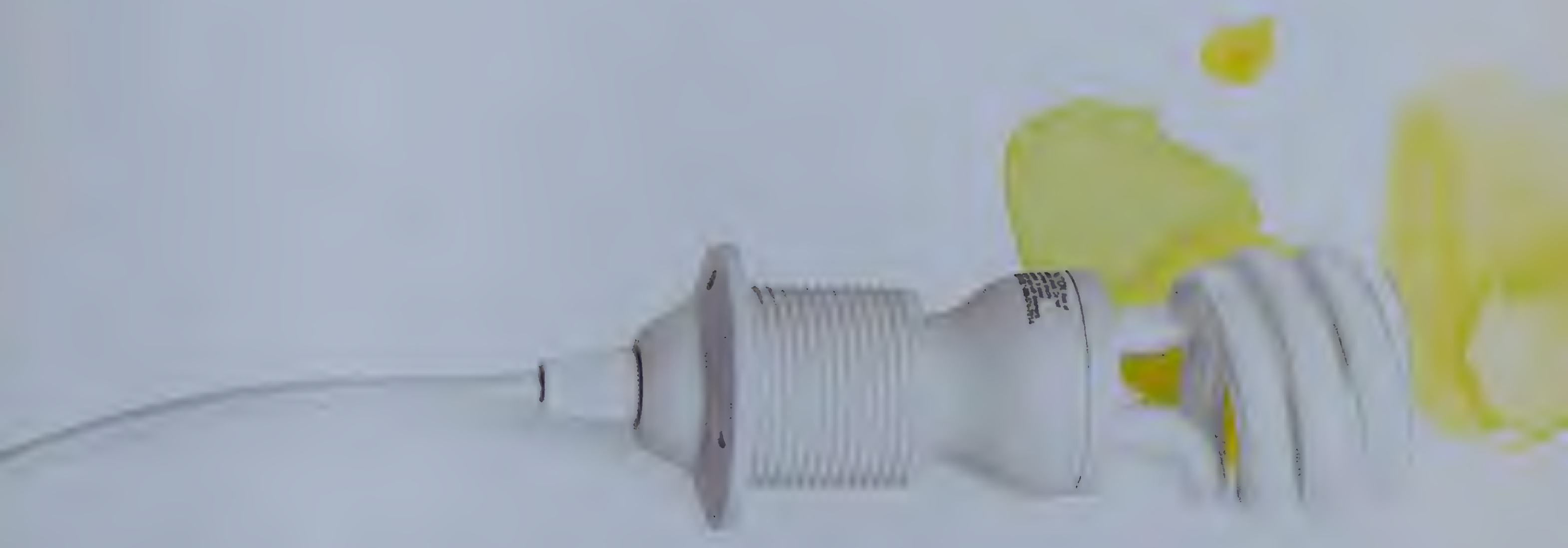
A complete glossary of terms and definitions is on page 35

Water and energy use (by mill) (continued)

	2008	2007	2006	2005	2004
Port Alberni					
Water use m^3/adt	75	86	95	101	99
Fuel energy usage GJ	4,120,219	4,576,657	5,642,218	6,386,313	7,041,370
Fuel energy intensity GJ/adt	14.81	15.96	16.77	19.09	15.93
Electricity usage MWh	674,704	706,895	835,365	883,288	979,781
Electricity intensity MWh/adt	2.43	2.39	2.49	2.64	2.29
Powell River					
Water use m^3/adt	73	78	87	96	98
Fuel energy usage GJ	5,928,542	6,325,759	6,998,712	6,702,903	6,522,138
Fuel energy intensity GJ/adt	12.63	13.05	14.94	15.06	15.32
Electricity usage MWh	1,392,001	1,382,634	1,364,746	1,339,364	1,215,656
Electricity intensity MWh/adt	2.97	2.85	2.91	3.01	2.86
Snowflake (all figures are for full year)					
Water use m^3/adt [1]	45	34	32	31	27
Fuel energy usage GJ	8,904,691	8,316,840	8,206,064	8,165,373	8,775,573
Fuel energy intensity GJ/adt [1]	22.21	18.71	17.98	17.95	20.57
Electricity usage MWh	327,505	327,630	319,474	315,827	316,851
Electricity intensity MWh/adt	0.94	0.99	1.04	1.09	1.11

1 Increased intensity of water and fuel energy use reflects in part the supply of utilities to a third-party-owned, carbon-netural energy generating facility that went into operation at the Snowflake site during 2008

A complete glossary of terms and definitions is on page 35



Solid waste

A third-party-owned, carbon-neutral energy generating facility was commissioned at Snowflake in 2008, and is expected to consume 75 per cent of the mill's total sludge production of approximately 250 tonnes per day as a fuel. This will significantly reduce landfilling requirements. Solid waste generation nevertheless increased at Snowflake in 2008, in part due to start-up challenges that prevented the energy generating facility from achieving the expected sludge utilization rate.

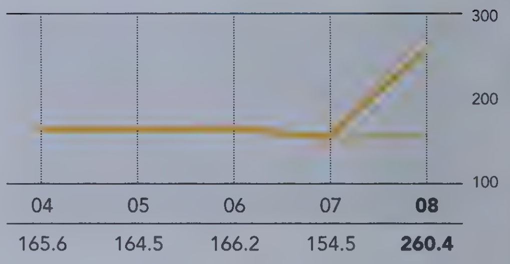
Paper Recycling Division continued a long-standing practice of providing its waste sludge for use as a turf-farm growing medium, and also provided some for use as landfill cover. Additional uses were being explored at the end of 2008, including ones at other Catalyst facilities.

Expansion of Catalyst's Powell River landfill was approved by the province in 2008 after a particularly rigorous and lengthy review process. The approval contains numerous conditions in response to concerns expressed by residents. Appeals were filed (although not all appellants were deemed to have standing) and will be heard in 2009.

Catalyst also filed its final application for an expanded landfill at Elk Falls. The consultation process included funding an independent consultant who reviewed the application on behalf of local aboriginal groups. A decision is expected in 2009.

Total solid waste to landfill

(thousands of m^3/year)



2008 performance excluding Snowflake: 156.9

Solid waste to landfill

(cubic metres per air-dried tonne)	**2008**	2007	2006	2005	2004
Crofton	**0.060**	0.054	0.074	0.070	0.070
Elk Falls	**0.110**	0.094	0.065	0.064	0.061
Paper Recycling	**0.120**	0.102	0.130	0.080	0.150
Port Alberni	**0.070**	0.067	0.076	0.086	0.061
Powell River	**0.034**	0.028	0.034	0.040	0.032
Snowflake (all figures are for full year)	**0.355**	0.222	0.182	0.215	0.196

Total key materials used as tonnes

	% [1]	**2008**	2007	2006	2005	2004
Water [2]		**176,518,631**	175,027,227	193,620,156	202,775,937	197,664,537
Wood chips and pulping logs	56.6	**2,207,406**	2,304,028	2,484,084	2,770,754	2,981,357
Hog fuel [3]	13.9	**541,421**	759,933	930,959	872,611	882,287
Old newspapers and magazines	13.5	**526,725**	170,272	173,195	165,781	176,999
Fossil fuels [4]		**122,632**	127,928	130,081	118,210	144,611
Precipitated Calcium Carbonate		**117,288**	116,391	125,602	104,309	103,613
Oxygen		**92,869**	103,684	101,762	97,192	132,705
Clay		**77,035**	81,057	73,393	66,512	55,159
Sodium Hydroxide		**47,815**	53,778	57,643	56,309	55,306
Sodium Chlorate		**29,227**	34,950	34,374	32,843	33,704
Hydrogen Peroxide		**29,198**	28,155	25,579	28,445	27,750
Sulphuric Acid		**23,822**	27,888	28,553	24,708	26,386
Sulphur Dioxide		**11,168**	12,771	17,452	20,315	20,242
Silicate		**18,973**	16,301	15,971	16,296	16,588
Starch		**13,409**	13,714	15,318	8,739	9,858

Figures include usage at Snowflake when relevant, and reflect its acquisition date of April 10, 2008

1 Per cent of total raw materials represented by categories sourced from waste (excluding water consumption in total weight)

2 Water is typically presented as m^3; in this case, one m^3 of water is approximately one tonne

3 2006 and 2007 figures updated to reflect calculation adjustments

4 Fossil fuels are typically reported as gigajoules of heating value, however weights – while not reflective of the true heat content of the fuels basket for each year – are recommended for inclusion as part of GRI reporting

A complete glossary of terms and definitions is on page 35

Reported total NPRI emissions (not including speciated PAHs or Part 5 VOCs)

(tonnes)	2007	2006	2005	2004	2003
Sulphur Dioxide	5,034	5,037	3,351	4,706	3,057
Carbon Monoxide	3,137	3,249	3,825	3,627	3,919
Nitrogen Oxides	2,353	2,587	2,585	2,647	2,593
Volatile Organic Compounds – total	1,356	1,388	1,403	1,441	1,618
Total Particulate	750	1,043	1,105	1,320	892
Hydrochloric Acid	953	988	971	824	869
PM10	653	685	604	716	675
Methanol	649	674	651	663	1,237
Phosphorus	591	619	700	528	451
PM2.5	529	472	420	493	468
Nitrate Ion	190	218	405	429	400
Manganese	296	375	420	417	287
Total Reduced Sulphur	276	–	–	–	–
Ammonia	376	356	318	257	219
Hydrogen Sulphide	82	123	123	112	118
Zinc	63	74	85	77	71
Acetaldehyde	40	43	43	37	53
Phenol	31	34	43	27	23
Carbonyl Sulphide	24	26	26	10	–
Sulfuric Acid	12	12	12	10	16
Chlorine Dioxide	81	13	14	6	6
Chloromethane	13	14	14	–	13
Cresol	9	10	–	–	–
(kilograms)					
Lead	3,078	3,023	2,794	2,564	1,951
Arsenic	1,353	1,114	813	770	706
Sum of PAHs (17)	3,946	564	551	498	495
Hexavalent Chromium Compounds	882	502	424	365	459
Cadmium	244	275	267	288	340
Mercury	5	3	7	10	19
(grams)					
Hexachlorobenzene (HCB)	579	750	426	415	636
Dioxins & Furans	42	57	60	68	59

Annual releases to air, water and land and disposal or recycling are reported to Environment Canada under the National Pollutant Release Inventory (NPRI) program each May for the preceding calendar year. Emissions are based on actual measures or defensible estimates and are reported if levels surpass specific thresholds. Data for all sectors – industrial, government, commercial and others – is available at www.ec.gc.ca/pdb/npri.

Increases in reported 2007 emissions for both chlorine dioxide and sum of PAHs reflect measurement and calculation changes. Natural process variability resulted in higher concentrations of arsenic and hexavalent chromium compounds in boiler ash at multiple locations, which in combination with use of an updated arsenic emissions factor, accounted for increases in these substances.

Part 5 VOCs will be considered in future reports as part of the company's Clean Production Initiative. Data is currently available on the Environment Canada website noted above.

Data is not included [–] in instances where reporting was not required by the regulator.

A complete glossary of terms and definitions is on page 35

Appendix 1

Non-compliances and Reportable Events

Crofton Division

Four non-compliances were registered relating to bleach plant chlorine dioxide emissions in 2008. The relevant limit was included in an air permit amended in 2007 and was based on incorrect measurements. During 2008, Crofton reduced chemical applications, re-used residual chemicals, recycled exhaust air, and implemented stack emission treatment. However, chlorine dioxide typically remained above a daily limit. A permit amendment application will be submitted in 2009.

Quarterly stack testing indicated non-compliance with the kiln's particulate limit. An online analyzer failed to detect and provide a basis for prevention of the higher emissions, likely due to the release of larger particulates that resulted from a partial power failure within the precipitator. The precipitator was quickly repaired and compliance restored. Immediate confirmatory stack tests will be taken in the event of such incidents in the future.

A non-compliance relating to leachate from a closed landfill and a failed fish toxicity test also occurred. No source could be identified and the result appeared to be an anomaly.

Two events occurred relating to releases of clean treated river water during a power and equipment failure, and were reportable only because they did not occur from normal discharge points. Four additional reportable events consisted of releases of 30 kg of ozone-depleting substances and 120 kg of other halocarbons (see page 23).

Elk Falls Division

A non-compliance was registered relating to high sulphur content in available coal supplies. Action on the part of the supplier resulted in a return to compliance by March 1, 2008.

One reportable incident resulted from a hose failure and release of liquid SO_2. The volume is believed to be small, but the incident was reportable due to its 45-minute duration. A change in inspection procedures has been implemented. Three other reportable events consisted of releases of 268 kg of ozone-depleting substances (see page 23).

Paper Recycling Division

The TSS permit level was exceeded as a result of operational error that allowed the build-up of excess solids in a secondary clarifier, which then spilled over into the effluent outflow. An immediate response brought TSS levels back into compliance the next day and training was provided to prevent a recurrence.

Port Alberni Division

Port Alberni had no permit non-compliances and a single reportable incident consisted of a release of 16 kg of ozone-depleting substances (see page 23).

Powell River Division

There were eight non-compliances relating to pH levels (acidity/basicity) in effluent. Causes – including a mill outage, an on-site demolition project, improper disposal of cleaning fluid, and a frozen pipe – were identified for six of these incidents. Corrective actions were implemented in 2008 or were under way at year end.

There were four reportable incidents including: a sampling error at an effluent outfall, a release of 20-25 kg of SO_2 (resulting in a partial mill evacuation but with no health impacts recorded), and two leachate releases (11 m^3 as a result of the demolition project, and 700 litres in connection with capacity testing of a landfill leachate line). Two other reportable incidents consisted of releases of 23 kg of ozone-depleting substances (see page 23).

Snowflake

Snowflake had no environmental permit non-compliance issues.

Non-compliances and reportable events

	Crofton	Elk Falls	Paper Recycling Division	Port Alberni	Powell River	Snowflake
2008	**12**	**5**	**1**	**1**	**14**	**0**
2007	5	4	1	2	5	0

Appendix 2

Supplemental Information

The following information relates to aspects of corporate performance that are recommended for disclosure in sustainability reports and are not specifically addressed elsewhere in this report.

Science-based principles

Catalyst routinely acts to improve aspects of its environmental performance based on possible, as opposed to known, impacts. A current example is the roll-out of the Clean Production Initiative at its Canadian operations (see page 22).

Infrastructure and services of public benefit

Catalyst maintains and operates water-management infrastructure (including a weir and dams) that serve a variety of public interests including provision of drinking water for the community of Crofton.

Indirect GHG emissions

Catalyst tracks indirect GHG emissions (World Resources Institute Scope 2) associated with its purchased electricity and steam consumption (see page 16). Catalyst does not have systems in place to measure other sources of indirect GHG emissions.

Biodiversity impacts

Catalyst manages no forest lands, but operates its facilities within regulatory requirements intended to minimize habitat impacts and engages with fibre suppliers regarding their management and conservation practices. In 2008, antelope habitat was restored at the Snowflake mill site and Catalyst entered into an agreement to sell some 500 acres of estuary lands in the Crofton area to Ducks Unlimited.

Minority group membership

Catalyst does not track corporate-wide work force trends relating to age or minority groups, due partly to privacy-related regulatory provisions.

Freedom of association, child labour, forced labour

Catalyst operates in British Columbia and Arizona, where freedom of association (including the right to engage in collective bargaining) is enshrined in law. These jurisdictions are deemed to be at low risk for child and forced labour.

Corruption

Catalyst's Code of Corporate Ethics and Behaviour contains specific anti-corruption provisions relating to bribery, prohibited benefits, and conflicts of interest.

Fines and non-monetary sanctions

Catalyst was ordered to pay a $75,000 fine during 2008 by WorkSafeBC (a provincial government agency) in connection with an asbestos-exposure incident in 2006. It was not subject to any significant fines or non-monetary sanctions for non-compliance with laws or regulations during 2008.

Public policy and government

Catalyst routinely participates in advocacy regarding regulatory matters relevant to its operations (see pages 12 and 22). Major association memberships in 2008 included the Forest Products Association of Canada, the Coast Forest Products Association, the Business Council of British Columbia, and The Climate Group. A Catalyst executive also sat on a provincial climate-change policy advisory panel in British Columbia. Political contributions (beyond minor ones in forms such as event ticket purchases) must be board-approved, and none were made during 2008. Catalyst did not receive any significant financial assistance from government in 2008.

Product stewardship and safety

While Catalyst is not formally engaged in any product stewardship initiatives, recent dialogue with directory industry interests may identify opportunities of mutual benefit. Catalyst's products are benign from a safety standpoint and it customers are well-versed in their handling and use.

Appendix 3

UN Global Compact/GRI Indicators Index

The United Nations Global Compact is the world's largest corporate citizenship and sustainability initiative. Catalyst is among close to 5,000 corporate participants and stakeholders from more than 130 countries that have agreed to make the compact and its 10 principles an integral part of their strategies, culture and day-to-day operations.

WE SUPPORT

Catalyst believes its policies and performance are in accordance with the 10 principles and that the principles were more deeply integrated during 2008. The index below indicates where actions relevant to specific principles are addressed in this report, and cross-references corresponding Global Reporting Initiative (GRI) indicators.

Global Compact principle	Corresponding core GRI indicators reported	Relevant section of report	Relevant pages of report
Human rights			
1 Businesses should support and respect the protection of internationally proclaimed human rights.	LA4 LA7 HR5-7, SO5	Compensation and Representation Safety Appendix 2	20 20 33
2 Businesses should make sure that they are not complicit in human rights abuses.	HR5-7, SO5	Appendix 2	33
Labour standards			
3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	LA4 HR5, SO5	Compensation and Representation Appendix 2	20 33
4 Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR7, SO5	Appendix 2	33
5 Businesses should uphold the effective abolition of child labour.	HR6, SO5	Appendix 2	33
6 Businesses should uphold the elimination of discrimination in respect of employment and occupation.	SO5	Appendix 2	33
Environment			
7 Businesses should support a precautionary approach to environmental challenges.	EC2, EN18 EN26 SO5	Carbon Management, Carbon and Climate Change Sustainable Product Pedigrees Appendix 2	16-17 14-18 33
8 Businesses should undertake initiatives to promote greater environmental responsibility.	EN1-3, EN6-7, EN13, EN16, EN18-20, EN23, EN26, EN28 SO5	Sustainable Product Pedigrees, Data and Additional Reporting (Environmental), Appendix 1 Appendix 2	14-18, 22-31, 32 33
9 Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN2, EN6-7, EN18, EN26 SO5	Sustainable Product Pedigrees, Data and Additional Reporting (Environmental) Appendix 2	14-18, 22-31 33
Anti-corruption			
10 Businesses should work against all forms of corruption, including extortion and bribery.	SO5-6	Appendix 2	33

A complete index of Catalyst's reporting on GRI indicators – within this report, its annual financial report, and on its website – is available at www.catalystpaper.com ("Social Responsibility" – "Reports").

Glossary

A Level TRS British Columbia's 'A' level ambient odour objective is two parts per billion average or less over a 24-hour day. Percentage compliance with this objective is a measure of the percentage of days in the year in which the daily average was at or below two parts per billion.

Ambient PM10 Measure of ambient levels of fine particulate of less than or equal to 10 microns. British Columbia's A Level PM10 objective is 50 micrograms per cubic metre.

Adsorbable Organic Halide (AOX) A measure of the amount of chlorine bound to an organic substance; occurs in kraft bleaching process.

Basis weight Weight of a standard amount of paper cut to a standard size; measured in grams per square metre or pounds.

Biomass fuel Renewable energy source derived from bark, wood shavings, sawdust and black liquor. Biomass is carbon-neutral – burning it releases the same amount of carbon dioxide as was originally sequestered during the growth of the vegetation.

Biochemical Oxygen Demand (BOD) A measure of the amount of oxygen used during biodegradation of effluents over a five-day period.

Carbon Disclosure Project An international coalition of investors, with a combined asset base of $57 trillion, that issues annual carbon-related disclosure requests to corporations, and issues national and regional reports.

Carbon offset An emissions reduction credit relating to another organization's project that results in less greenhouse gases in the atmosphere than would otherwise occur.

Certification A voluntary process providing objective evidence that forests harvested to manufacture wood and paper products are managed responsibly; independent, third-party experts verify a company's performance against objectives and standards.

Chain-of-custody The process of tracking materials used within a manufacturing facility, so that the source of raw materials used to make specific end products can be identified. Commonly applied in the context of use of certified fibre supplies.

Clarifier A tank in which effluents are held to allow solids to settle out. Forms part of an effluent treatment system.

CO_2e Effective greenhouse gas emissions expressed as equivalent tonnes of carbon dioxide. Some greenhouse gases have a stronger warming effect than others; the CO_2e measure provides an appropriate comparison of the warming effects of every greenhouse gas.

Co-generation The use of an energy-generating source to simultaneously generate both heat for industrial applications and electricity.

De-inked pulp Pulp produced by recycling paper; ink is removed by mechanical and chemical means to produce clean fibres.

Dioxins and furans Specific chlorine-containing compounds that have been detected in trace amounts in pulp and paper facility emissions. 2378TCDD and 2378TCDF denote specific dioxin and furan substances. A non-detection result is noted as n/d.

Ecosystem-based Management (EBM) An approach to forest management, based on defined principles and goals, that seeks to maintain healthy and fully functioning ecosystems as well as vibrant human communities, in part by determining the relevant requirements before harvesting decisions are made.

Fibre Any of various wood-based raw materials used in the production of pulp and paper including wood chips and other sawmilling residuals or waste products, pulp logs (logs of insufficient quality for use as lumber) and paper recovered through recycling programs.

First Nation A term used to designate aboriginal groups in Canada. First Nations are one of the three aboriginal peoples of Canada, the other two being the Inuit and Métis.

Fossil fuel Hydrocarbon-containing natural resources such as coal, petroleum and natural gas.

Greenhouse Gases (GHG) Gases that prevent heat from radiating out into space, causing an increase in global temperatures. Carbon dioxide is a greenhouse gas produced mostly from combustion of fossil fuels.

Indirect Greenhouse Gases (GHG) Greenhouse gas emissions relating to an industrial process but not directly generated by it. Measurement of such emissions, as per the World Resources Institute's Scope 2 definition, is commonly limited to those associated with purchased energy.

Intensity A measure of an output or other aspect of performance relative to some other variable. Carbon produced per tonne of production, in contrast to an absolute measure of total carbon produced, is an intensity measure.

ISO 14001, 9001, 14064 International standards outlining elements of management systems pertaining to environmental practices, product quality, and greenhouse-gas accounting, respectively. Demonstrable adherence to these standards results in ISO registration.

Kraft pulping A chemical process by which wood chips are broken down and converted into pulp for use in the manufacture of products such as containerboard (used in packaging materials) and paper.

Leachate Water that has been in contact with waste materials.

Manufactured carbon neutral Refers to products manufactured with no net increase of carbon to the atmosphere – as measured by direct GHG emissions – as a result of low-carbon production processes and the purchase of carbon offsets.

Ozone-depleting substance Chemicals that react with ozone molecules in the atmosphere to destroy them.

Particulate matter Small particles originating from stack emissions or other sources such as chip piles.

Power boiler Burns renewable biomass from sawmills and/or fossil fuels to generate electricity and steam for mill operations.

Power boiler dioxins Low levels of chlorinated compounds absorbed into combusted wood ash that originate from sea salt contained in the waste bark fuel. Power boiler dioxins are expressed as dioxin equivalent units (TEQ).

Recovered paper Previously manufactured paper recovered through municipal recycling programs or other means and used as the raw material in recycling mills.

Reportable events Events that are required to be reported to regulatory authorities. They most commonly consist of unintentional releases of materials into the environment that are reportable due to considerations relating to the type or volume of materials released, or the nature of the receiving environment.

SO_2 A gas made up of oxygen and sulphur that forms an acid when exposed to water. SO_2 can be an ingredient of acid rain formation.

Solid waste Any wastes generated by mills that require landfilling. These include boiler wood ash, lime wastes, waste wood, and minor construction and demolition debris.

Supplementary fuels Fuels such as natural gas or oil that are added to the waste wood burned in power boilers to improve combustion.

Thermo-mechanical A process by which heat and mechanical refining techniques are used to break down wood chips and convert them into pulp.

Toxicity Measure of the degree to which something is toxic – i.e. capable of causing injury or death.

Trout toxicity Test that exposes juvenile rainbow trout to liquid substances for 96 hours. A substance is considered non-toxic if less than 50 per cent of the exposed fish die.

Total Reduced Sulphur (TRS) Gases Gases with the characteristic smell of rotten eggs or cabbage that are emitted from kraft pulp mill operations and effluent treatment systems.

Total Suspended Solids (TSS) Filterable solids remaining in treated mill water.

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Visit us online at **www.catalystpaper.com**

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Production notes Cover printed on 205-gsm Chromiumliner containing 100 per cent certified wood fibre and produced at Catalyst's Elk Falls mill in accordance with PricewaterhouseCoopers' independent chain-of-custody certification standard.

Inside pages printed on 66.5-gsm Electrastar 80 containing 100 per cent certified wood fibre and produced at Catalyst's Powell River mill in accordance with PricewaterhouseCoopers' independent chain-of-custody certification standard. Electrastar is an extra high-brightness uncoated product with excellent opacity and is well-suited for advertising inserts and flyers.

All of the paper on which this report is produced is Catalyst Cooled™ – paper manufactured with no net carbon emissions to the atmosphere.

Printed by Metropolitan Fine Printers Inc., Vancouver, British Columbia, using UV inks that comply with CONEG regulations for heavy metals; contain no alcohol, solvents, ammonia or formaldehyde; are completely recyclable; and release virtually no volatile organic compounds into the environment.

designed and produced by smith + associates
Please recycle.

Paper Facts
per report (117 g)

Inputs	
Raw Fibre (g)	134
% certified sources	100
Filler (g)	12
Water (L)	8.3
Work (person-secs)	1.0
Energy (cal)	643
% renewable	90

Emissions	
Greenhouse gases (g)	13.5*
Air Particulate (mg)	22.1
Effluent BOD (mg)	75
Solid waste (cm^3)	5.8

* Catalyst Cooled™ – offset to zero

Transparency is an important principle at Catalyst. Our paper facts label reflects our ability to precisely measure various inputs and emissions associated with the manufacture of Catalyst papers. It tells the story behind our products and lets customers make informed choices.

Catalyst

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Catalyst

annual report 2008

decisive action in changing times

2008 saw a speed of change and scope of challenges rarely before encountered

Company profile

Catalyst Paper manufactures diverse specialty printing papers, newsprint and pulp, and is headquartered in Richmond, British Columbia, Canada. Its customers include retailers, publishers, commercial printers and paper manufacturers in North America, Latin America, the Pacific Rim and Europe. With six mills strategically situated in British Columbia and Arizona, Catalyst has a combined annual capacity of 2.5 million tonnes.

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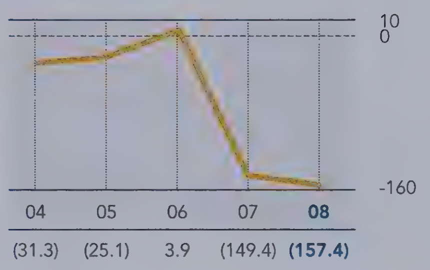
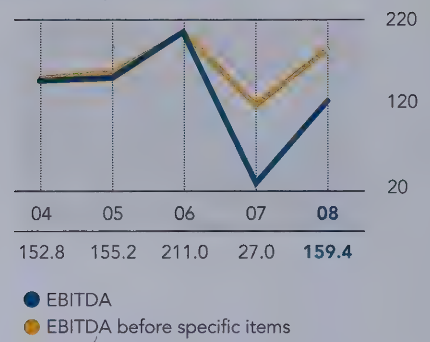
For more information on Catalyst's products, mills and governance visit **www.catalystpaper.com/aboutus**

Catalyst's strategy remained decisive and disciplined – we seized new opportunities and focused unwaveringly on cost and production efficiencies

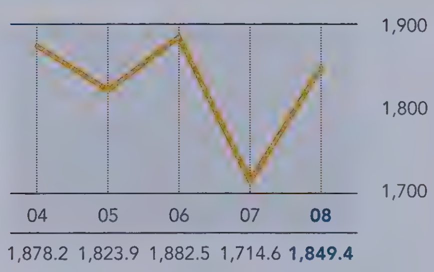
Operating earnings (In millions)



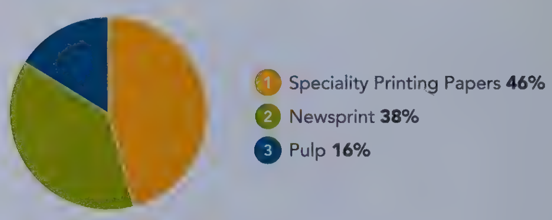
EBITDA and EBITDA before specific items (In millions)



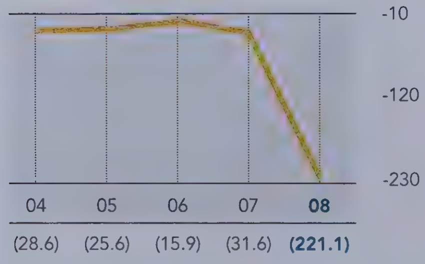
Sales (In millions)



Production capacity (% tonnes)



Net earnings (In millions)



Three-year trends on key performance metrics are noted below. Financial results are elaborated on in this report, while readers with an interest in more details regarding Catalyst's social and environmental performance will find the Company's annual sustainability report at **www.catalystpaper.com**.

Highlights

Financials

(In millions of dollars, except where otherwise stated)	2008	2007	2006
Sales	$ 1,849.4	$ 1,714.6	$ 1,882.5
EBITDA [1]	159.4	27.0	211.0
EBITDA before specific items [1]	189.5	116.7	211.0
Operating earnings (loss)	(157.4)	(149.4)	3.9
Net earnings (loss)	(221.1)	(31.6)	(15.9)
Net earnings (loss) before specific items [1]	(28.0)	(89.3)	(25.0)
Cash flows provided (used) by operations	75.7	(2.7)	127.2
Total debt [2]	958.7	785.8	860.5
Total assets	2,423.4	2,457.1	2,641.3
Capital expenditures	41.9	85.8	93.2
Average spot foreign exchange rate US$/C$ [3]	0.938	0.930	0.882
Period-end spot foreign exchange rate US$/C$ [4]	0.817	1.012	0.858

Operations	2008	2007	2006
Production [5]			
Specialty printing papers	1,060	1,055	984
Newsprint	597	473	704
Pulp	503	602	624
Safety			
Medical incident rate [6]	4.49	3.70	3.68
Lost-time injury frequency [7]	2.19	2.06	1.51
Number of employees [8]	2,711	3,023	3,655
Greenhouse gas emissions [9, 10]	1,039	432	419

1 EBITDA, EBITDA before specific items, and net earnings (loss) before specific items are non-GAAP measures. Refer to section 10, "Non-GAAP measures" for further details.

2 Total debt comprises long-term debt, including current portion.

3 Average spot foreign exchange rate is the average Bank of Canada noon spot rate over the reporting period.

4 Period-end spot foreign exchange rate is the Bank of Canada noon spot rate.

5 Thousands of tonnes.

6 Number of medical incidents per 200,000 hours worked.

7 Number of lost-time injuries per 200,000 hours worked.

8 Figures exclude vacancies.

9 Thousands of tonnes CO_2e/year.

10 GHGs excluding Snowflake were 380.

economic and market conditions enhance the importance of cost reductions and our capacity to achieve further improvement

A major acquisition during 2008 transformed Catalyst's operational and asset base into a continental one. It also strengthened our position in Western North American markets. Although the economic challenges intensified in the latter quarter of 2008, pricing momentum across products and cost reductions in all parts of our business contributed to improved operating earnings in two of three segments.

A combination of strategic expansion and necessary re-structuring resulted in a net loss in 2008 of $221.1 million ($0.66 per common share) on sales of $1,849.4 million. The increase, over a net loss of $31.6 million ($0.15 per common share) on sales of $1,714.6 million in 2007, was accounted for largely by an after-tax impairment charge of $111.0 million arising from the permanent closure of the Elk Falls sawdust pulp and white top linerboard operations, and an after-tax foreign exchange loss of $69.4 million on the translation of US$ denominated debt. Before this and other specific items, net loss in 2008 was $28.0 million, a significant improvement over a net loss of $89.3 million in 2007.

While our operating losses of $157.4 million in 2008 and $149.4 million in 2007 were comparable, EBITDA improved significantly to $159.4 million from $27.0 million. Our specialty printing papers and newsprint segments showed a turnaround from operating losses in 2007 to operating earnings in 2008 of $27.0 million and $3.6 million respectively. This reflects, in part, favourable pricing conditions for much of the year.

The business climate

Higher energy costs, a related escalation in the price of inputs such as chemicals and distribution, and foreign exchange volatility have been persistent challenges for Catalyst and the broader forest products sector. These factors continued to influence strategies and drive outcomes in 2008 with production curtailment required at all mills as demand weakened. In addition, the ongoing unavailability of sawdust fibre supply led to the permanent closure of the Elk Falls pulp mill and white top linerboard operations in November 2008.

Favourable momentum – as paper prices recovered in the early part of 2008 and pulp prices reached highs not seen since 1995 – was largely derailed by the dramatic collapse of credit markets and the sharp global economic downturn later in the year. Demand and pricing conditions were therefore highly variable, however we were able to leverage machine flexibility to keep pace with customer market dynamics.

Declining levels of advertising late in 2008 had a major impact on coated mechanical demand. Uncoated products were less affected as grade substitution favoured machine-finished grades and largely offset declines in super-calendered demand. At the same time, directory, newsprint and pulp markets experienced an easing up of demand.

Performance improvement

We continued to take steps to strengthen our financial and operating base. We added a sixth production facility and our first outside of Canada with the acquisition of the recycled newsprint mill in Arizona.

The Snowflake mill significantly expands our recycled newsprint capacity. It provides a hedge against currency fluctuation, while strengthening our position relative to key U.S. markets. Acquired in April, Snowflake contributed positively to the year's results and synergies of US$9.2 million on an annualized run rate were achieved as of year-end.

Of further significance was the successful re-financing, during the year, of our previous operating credit facility that would have matured in 2009. We now have in place a $330 million asset-based loan facility, with acceptable covenants and a five-year term, which provides enhanced liquidity and assurance of stability under current credit conditions.

President's message

Richard Garneau
President and Chief Executive Officer
February 12, 2009

Beyond workforce reductions in British Columbia, we also made significant progress with union locals in work practices that will assist the business in achieving an $80 per tonne labour-cost target. This was a key factor in the re-start of the idled No. 4 paper machine at Port Alberni during 2008 and in the capital upgrade of more cost-efficient thermo-mechanical pulping capacity. At Snowflake, following the Smurfit-Stone Container Corporation closure of its corrugating medium machine, a workforce reduction of more than 100 people was completed to keep the recycled newsprint mill cost competitive.

Our attention to cost management is ongoing and it parallels our determination to improve the performance of each component of our operations.

Outlook for 2009

Economic conditions generally – and market conditions for all three of our product segments – are expected to remain difficult in 2009.

Production curtailments taken in the fourth quarter of 2008 and announced for the first quarter of 2009 have removed approximately 35 per cent of Catalyst's newsprint capacity, five per cent of its specialty papers capacity and 27 per cent of its market pulp capacity. An additional 30,000 to 35,000 tonnes of curtailment is expected to be necessary in the first quarter to maintain inventory at an appropriate level. Based on current trends in advertising and paper consumption, we expect production curtailment to continue into the second quarter. Decisions on the extent of any further curtailments will be made as required based on market conditions at the time.

This highlights the competitive importance of the cost reductions realized to date, and our ability to achieve further cost-structure improvements. Agreements concluded in late 2008 with unions at Crofton, Elk Falls and Powell River contain commitments to complete plans that assist us in achieving our $80 per tonne labour cost target at each mill. As the company slows production in the face of the worldwide economic recession, further adjustments to fixed costs will be necessary to reflect the lower production level.

In a broader policy context, we are intent on developing more sustainable business conditions in mill operating communities in British Columbia. This hinges on achieving more competitive and equitable property tax rates that reflect the actual cost of services consumed.

And we believe we will continue to be well-served by focusing on key environmental performance indicators including bringing 2008 greenhouse gas emissions at our Canadian operations to 73 per cent below the 1990 level.

We continue to embed good sustainability practices in our product suite, recognizing that marketplace attention to criteria such as carbon footprints has not waned, despite the current economic turmoil. We believe Catalyst is well prepared to deal with regional or continental carbon markets as the rules become clearer.

On the whole, business conditions were very challenging in 2008 and we expect the situation to worsen in 2009. We are nevertheless posting results that have improved – reflecting decisive steps taken to leverage strengths and address weaknesses. We are determined to achieve sustained improvement going forward.

Management's Discussion and Analysis

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Management's Discussion and Analysis

The following management discussion and analysis ("MD&A") of Catalyst Paper Corporation (the "Company") should be read in conjunction with the consolidated financial statements for the years ended December 31, 2008, 2007, and 2006, and the notes thereto.

Effective January 1, 2008 the Company renamed its specialty paper segment "Specialty Printing Papers" to better reflect the nature of the Company's specialty printing paper products. The segment financial information has not been impacted.

Throughout this discussion, reference is made to EBITDA, which represents earnings before interest, taxes, depreciation and amortization, impairment, and before other non-operating income and expenses as well as EBITDA before specific items, average delivered cash costs per tonne before specific items, net earnings (loss) before specific items, net earnings (loss) per share before specific items, and free cash flow. Management believes these measures are useful to evaluate the performance of the Company and its business segments. As Canadian Generally Accepted Accounting Principles ("GAAP") do not define a method of calculating these measures, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled with their nearest GAAP measure. The definition, calculation, and reconciliation of these non-GAAP measures is provided in Section 10: "Non-GAAP measures".

In accordance with industry practice, in this MD&A, the term "tonne" or the symbol "MT" refers to a metric tonne and the term "ton" or the symbol "ST" refers to a short ton, an imperial unit of measurement equal to 0.9072 metric tonnes, and the symbol "Bdt" refers to bone dry tonnes.

In this MD&A, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars, as are the term "dollars" and the symbols "$" and "CDN$". The term "U.S. dollars" and the symbol "US$" refer to United States dollars.

The information in this report is as at February 12, 2009, which is the date of filing in conjunction with the Company's press release announcing its results for the fourth quarter and twelve months ended December 31, 2008. Disclosure contained in this document is current to that date, unless otherwise stated.

Cautionary statement regarding forward-looking statements

This MD&A contains forward-looking statements. Forward-looking statements are statements, other than statements of historical fact, that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future, including statements relating to overall economic conditions, future cost savings, capital expenditures, demand for the Company's products, product prices and advertising levels, production volumes, future cash flows, severance obligations, strength of markets, achievement of synergies, availability of fibre and curtailment of operations. These forward-looking statements can be identified by the use of words such as "anticipate", "could", "expect", "seek", "may", "likely", "intend", "will", "believe" and similar expressions or the negative thereof. These forward-looking statements reflect management's current views and are based on certain assumptions including assumptions as to future economic conditions and courses of action, as well as other factors management believes are appropriate in the circumstances. Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Company will derive from them. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including the general economic conditions in the U.S., Canada and internationally, market conditions and demand for the Company's products, declines in advertising and circulation, the outlook for inventories, production and pricing, the Company's ability to successfully obtain cost savings from its cost reduction initiatives, expected cash flows, capital expenditures and completion of capital projects, shifts in industry capacity, fluctuations in foreign exchange and interest rates, fluctuations in availability and cost of raw materials or energy, the implementation of environmental legislation requiring capital for operational changes, the Company's ability to obtain financing and other factors beyond the Company's control. Additional information concerning these and other factors can be found in Section 14 of this MD&A under the heading "Risks and uncertainties". The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results.

1. Overview and highlights

Overview of the business

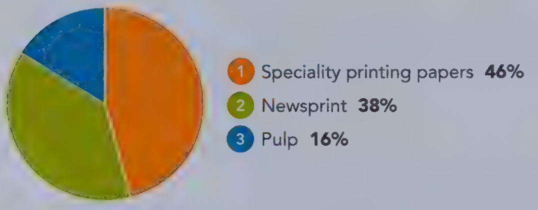
Catalyst is a leading producer of specialty printing papers and newsprint in North America. The Company also produces market pulp and owns Western Canada's largest paper recycling facility. With five mills, including its paper recycling facility, located within a 160-kilometre radius on the south coast of British Columbia ("B.C."), and one mill located in Snowflake, Arizona, Catalyst has a combined annual capacity of 2,491,000 tonnes of product. The Company is headquartered in Richmond, B.C.

The Company is the largest producer of specialty printing papers and newsprint in Western North America. Catalyst's specialty printing papers include lightweight coated, uncoated mechanical papers, and directory paper. The Company is one of the largest producers of directory paper in the world and the only producer of lightweight coated paper in Western North America.

The Company's products are sold through the Company's sales and marketing personnel in North America and through distributors and agents in other geographic markets. These products are shipped by a combination of rail, truck and barge for North American customers and by break-bulk and container deep-sea vessels for overseas customers.

The Company's business is comprised of three business segments: specialty printing papers, newsprint, and pulp. The split of production capacity between the three business segments as of December 31, 2008 is as follows:

Business segments (% tonnes)



Specialty printing papers

The specialty printing papers segment consists of lightweight coated ("LWC") and uncoated mechanical papers such as soft-calendered ("SC") and machine-finished ("MF") (high-brights and super-brights) and directory paper. These specialty printing paper grades can be manufactured on ten[1] paper machines in B.C. at Crofton, Elk Falls, Port Alberni and Powell River. The specialty printing papers business segment has a total production capacity of 1,135,000 tonnes.

Specialty printing papers represents the Company's largest business segment, generating 54% of 2008 consolidated sales revenue. The Company's specialty printing papers are sold to a diversified customer base consisting of retailers, magazine and catalogue publishers, commercial printers and telephone directory publishers. In 2008, 90% of specialty printing papers sales volume was sold to customers in North America.

Newsprint

Newsprint can be manufactured on seven[1] paper machines at Crofton, Elk Falls, Powell River and Snowflake. The Company acquired the Snowflake mill on April 10, 2008. The newsprint business segment has a total annual production capacity of 953,000 tonnes. The Elk Falls No. 1 paper machine ("E1") has been curtailed since September 2007 and the Company announced in January 2009 that the Crofton No. 1 paper machine ("C1") will also be curtailed until market conditions improve. The curtailment of these two machines represents the equivalent of 293,000 tonnes of newsprint capacity on an annualized basis.

Newsprint sales generated 25% of 2008 consolidated sales revenue. The newsprint customer base consists primarily of newsprint publishers located in Western and Central North America, Asia and Latin America. In 2008, 70% of newsprint sales volume was sold to customers in North America.

1 The Company has 13 paper machines. The number of machines noted above reflects the ability of the Company's machines to switch between newsprint and specialty printing papers grades.

Pulp

The pulp segment consists of Northern Bleached Softwood Kraft ("NBSK") pulp manufactured at Crofton. The pulp business segment has a total annual production capacity of 403,000 tonnes, of which 343,000 tonnes represents market capacity with the remainder being consumed internally. Prior to November 18, 2008, the pulp segment also included 331,000 tonnes of sawdust pulp and white top linerboard capacity at Elk Falls. The Elk Falls sawdust pulp and white top linerboard operation was permanently closed on November 18, 2008 as a result of unavailability of sawdust fibre.

Pulp and white top linerboard sales generated 21% of 2008 consolidated sales revenue. The pulp customer base is located primarily in Europe and Asia and includes producers of tissue, magazine papers, woodfree printing and writing papers and certain specialty printing papers products. In 2008, 78% of pulp and white top linerboard sales volume was sold to customers in Europe and Asia. The Crofton pulp mill is located on tidewater and has a deep-sea vessel loading facility.

The Company also owns the largest paper recycling facility in Western Canada. Operated in support of the business segments described above, the recycling facility has an annual production capacity of 175,000 air-dried tonnes of de-inked pulp, the majority of which is consumed internally.

The chart below illustrates the Company's principal paper and pulp products, their applications, and annual 2009 production capacity:

Product profile

Segment	Specialty printing papers				Newsprint	Pulp
	Uncoated mechanical					
Category	Soft-calendered	Machine-finished	Lightweight coated	Directory	Newsprint	NBSK pulp
Brand names	Electrasoft Electracal Electraprime	Electrabrite Electrastar	Electracote	Catalyst	Marathon	Crofton Kraft
Basis weight (g/m²)	45 – 52	45 – 66.5	44.4 – 63.6	28 – 40	43 – 48.8	n/a
Applications	retail inserts, magazines, catalogues, flyers, direct mail, directories	retail inserts, magazines, supplements, flyers, direct mail, PR and corporate communication books/manuals	retail inserts, magazines, catalogues, direct mail	telephone books, catalogues	newspapers, retail inserts, flyers, supplements, directories	tissue, printing and writing papers, specialty paper products, containerboard
Total capacity (tonnes)	588,000 [1]		231,000	316,000 [1]	953,000 [1,3]	403,000 [2]
% of total capacity	24%		9%	13%	38%	16%

1 Capacities expressed in the above table can vary as the Company is able to switch production between products, particularly newsprint, directory and machine-finished uncoated grades.

2 Total pulp capacity at Crofton is 403,000 tonnes, of which 343,000 is designated as market pulp with the remainder being consumed internally.

3 The Company has indefinitely curtailed E1 and C1, displacing the equivalent of 153,000 tonnes and 140,000 tonnes respectively, of the Company's annual newsprint production. The capacity and number of machines noted in the table above have not been adjusted to reflect the indefinite curtailment.

The chart below illustrates the annual 2009 production capacity of the Company's principal paper and pulp products by mill:

Capacity by mill location and product line

		Specialty printing papers			Newsprint	Pulp
Mill location	Number of paper machines	Uncoated mechanical	Lightweight coated	Directory	Newsprint	NBSK pulp
Crofton, B.C.[3]	3	–	–	210,000	200,000	403,000[2]
Elk Falls, B.C.[3]	3	153,000	–	–	373,000	–
Port Alberni, B.C.	2	–	231,000	106,000	–	–
Powell River, B.C.	3	435,000	–	–	33,000	–
Snowflake, Arizona	2	–	–	–	347,000	–
Total capacity (tonnes)		588,000[1]	231,000	316,000[1]	953,000[1]	403,000

1 Capacities expressed in the above table can vary as the Company is able to switch production between products, particularly newsprint, directory and machine-finished uncoated grades.

2 Total pulp capacity at Crofton is 403,000 tonnes, of which 343,000 is designated as market pulp with the remainder being consumed internally.

3 The Company has indefinitely curtailed E1 and C1, displacing the equivalent of 153,000 tonnes and 140,000 tonnes respectively, of the Company's annual newsprint production. The capacity and number of machines noted in the table above have not been adjusted to reflect the indefinite curtailment.

Geographic sales distribution

The Company's products are sold on five continents. At 68% of total sales, North America continues to be the Company's principal market, and is followed in significance by Asia and Australasia, Latin America, and Europe. The consolidated sales volume distribution for 2008 was as follows:

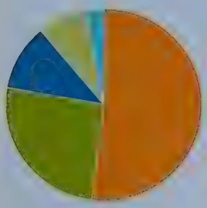
2008 total geographic sales distribution (% tonnes)

The paper sales volume distribution for 2008 was as follows:

2008 paper geographic sales distribution (% tonnes)

The pulp sales volume distribution for 2008 was as follows:

2008 pulp geographic sales distribution (% tonnes)



2008 annual overview

General overview

2008 saw improved operating results during the course of the year as prices for the Company's paper products recovered strongly from their low levels in 2007, and as capacity contracted in most of the paper grades the Company competes in. Improved pricing, the acquisition of Snowflake in April 2008, and a continued focus on cost reduction, particularly through more efficient workforce levels, enabled the Company to more than offset a number of negative factors in the year. The impact of exchange rates, higher costs of distribution, chemicals and fuel (driven by high energy prices), and significant curtailment as a result of both market demand and fibre supply, all represented significant challenges. Despite the positive trend in earnings during 2008, the acceleration of the global economic downturn in the latter part of the year led to a rapid decline in print advertising and significantly weaker demand for the Company's products, leading to increased curtailment as the year progressed.

Financial performance

The Company recorded a net loss of $221.1 million and a net loss before specific items of $28.0 million in 2008, compared to a net loss of $31.6 million and a net loss before specific items of $89.3 million in 2007. The net loss for 2008 included an after-tax impairment charge of $111.0 million, $101.0 million of which was related to the Company's sawdust pulp and white top linerboard operation at Elk Falls, and an after-tax foreign exchange loss of $69.4 million on the translation of U.S. dollar denominated long-term debt. EBITDA for 2008 was $159.4 million compared to $27.0 million in 2007. The Company's 2008 EBITDA included restructuring costs of $30.1 million, compared to restructuring, change of control, and United Steelworkers ("USW") strike-related costs of $89.7 million in 2007. EBITDA before these specific items was $189.5 million, compared to $116.7 million in 2007.

Snowflake mill acquisition

On April 10, 2008, the Company completed the acquisition of the Snowflake recycled newsprint mill in Arizona for a total cost of $169.8 million, including working capital adjustments and transaction costs. The acquisition was financed through a combination of the net proceeds of an equity rights offering of $121.1 million and a draw on the Company's credit facility.

The Snowflake mill is a low-cost newsprint operation which provides geographic, fibre and currency diversification. The mill has a total annual production capacity of 347,000 tonnes of newsprint and contributed 215,200 tonnes to the Company's 2008 newsprint production. The Company generated annualized synergies of US$9.2 million in 2008 through a number of optimization initiatives, including a reduced workforce and improved production efficiencies.

Production curtailment

As a result of reduced demand, the Company took market related curtailment at its paper operations and Crofton long fibre pulp operation during the year in order to adjust production to customer orders and manage inventory to an appropriate level. In addition, the deterioration in the United States housing market and poor lumber market conditions in 2008 resulted in the curtailment or permanent closure of a number of sawmills during the year. This resulted in ongoing fibre shortages particularly for sawdust, and the Company took periodic curtailment throughout the year at its Elk Falls sawdust pulp and white top linerboard operation before its permanent closure in November 2008 due to unavailability of sawdust fibre.

The following table summarizes pulp and paper production curtailment in 2008:

2008 production curtailment

(000 tonnes)	Pulp[2]	White top linerboard[2]	Newsprint[1]	Specialty printing papers	Total
Q1	14.0	8.2	41.6	0.9	64.7
Q2	12.8	4.4	38.3	–	55.5
Q3	16.8	8.0	42.7	2.7	70.2
Q4	46.7	23.8	72.7	27.5	170.7
Total	90.3	44.4	195.3	31.1	361.1

1 Curtailment includes 153,000 tonnes related to E1 which is indefinitely curtailed due to the decline in market demand for newsprint.

2 Includes impact on production due to the closure of the Elk Falls sawdust pulp and white top linerboard operation in November 2008 (39,200 tonnes in Q4 from date of permanent closure to year end).

Permanent closure of the Elk Falls pulp mill

On November 18, 2008, as a result of the ongoing unavailability of sawdust fibre, the Company permanently closed its sawdust pulp and white top linerboard operation at the Elk Falls mill. This resulted in the removal of 200,000 tonnes of annual sawdust pulp and 131,000 tonnes of annual white top linerboard capacity. The Company recorded severance related restructuring costs of $15.1 million and an asset impairment charge of $136.4 million in connection with this closure in 2008. Total severance costs to be incurred as a result of this closure are estimated to be approximately $21 million.

In addition to the impairment charge associated with the closure of the Elk Falls pulp mill, the Company also recorded a $14.6 million asset-impairment charge in 2008 related to certain specific assets at its mills that are no longer in use or where the net realizable value has decreased due to the weak economic environment.

Restructuring

In February 2008, the Company reached new labour agreements at its Port Alberni mill, resulting in significant workforce reductions and related early retirement and severance payments. To further lower the operating costs at the mill, the Company committed to a $12 million capital upgrade on the thermo-mechanical pulp facility to allow the replacement of recycled de-inked pulp with lower cost thermo-mechanical pulp ("TMP"). As a result, the Port Alberni No. 4 paper machine ("A4") was restarted in May 2008. A4 had been indefinitely idled since September 2007. On an annualized run-rate basis, the restart of A4 represents 134,000 tonnes of newsprint production. The Company recorded $14.6 million in restructuring costs in 2008 related to the early retirement and severance program. Completion of the TMP project is expected in May 2009.

In April 2008, the Company announced the indefinite curtailment of the Elk Falls No. 1 paper machine. E1 had been temporarily curtailed in September 2007 due to lack of fibre as a result of the USW strike. The indefinite curtailment resulted in a reduction of approximately 145 employees at Elk Falls, the majority through layoffs. At the same time, the Company also announced workforce reductions of 82 positions at Crofton as the mill took steps to improve its overall cost structure. Costs associated with these restructuring programs are expected to be approximately $4 million in 2008 and early 2009.

Renewal of collective agreements

In November 2008, the Company reached an agreement on the renewal of the collective agreements with the locals of the Communications, Energy and Paperworkers Union of Canada ("CEP") at its Crofton, Elk Falls and Powell River mills and with the Pulp, Paper and Woodworkers of Canada ("PPWC") at its Crofton mill. The agreements have a four-year term, expiring April 30, 2012, and include a commitment to complete plans which will assist the Company in reaching its target of an $80 per tonne labour-cost structure at each of its mills. Refer to Section 1 "Overview and Highlights" for additional details under "Strategy."

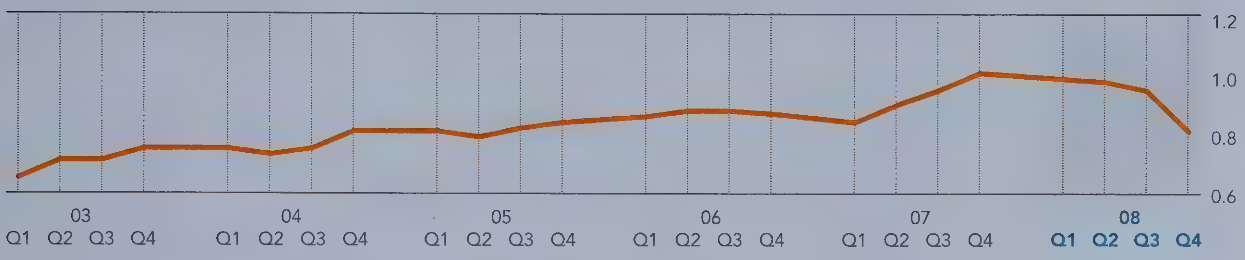
Canadian dollar

The majority of the Company's sales are denominated in U.S. dollars. Although the Canadian dollar weakened substantially against the U.S. dollar in Q4, 2008, the average spot rate for 2008 was US$0.938 compared to US$0.930 for 2007. The slightly unfavourable movement in the average year-over-year spot rate was amplified by the negative impact of the Company's hedge positions which led to a higher effective exchange rate as the Canadian dollar saw an unprecedented weakening relative to the U.S. dollar in October and through Q4. Overall the US$/CDN$ exchange rate movements negatively impacted 2008 revenue by $55.4 million and EBITDA by $31.3 million when compared to 2007.

The chart below illustrates the movement of the US$/CDN$ spot rate over the past six years:

US$/CDN$ average spot rate

(Source: Bank of Canada noon spot rate)



Product demand and pricing

Market conditions for the Company's products were mixed in 2008. The Company's paper and pulp products saw significant price increases for much of the year despite weakening demand, due to tight supply particularly early in the year. Demand for both paper and pulp fell significantly in the last few months of the year due to a decline in print advertising and the worldwide economic slowdown.

Coated mechanical demand was down significantly in the last eight months of the year largely due to the decline in print advertising. Grade substitution to lower value alternatives and high mill and consumer inventories further accentuated the decline in coated demand. Nonetheless, tight market supply early in the year allowed the Company to largely implement the two US$60 per ton price increases announced in April and July before prices began to weaken in the fourth quarter. The average 2008 LWC benchmark price was 22.1% higher than in 2007.

Uncoated mechanical demand was down 2.7% in 2008 as increased demand for MF grades partially offset the decline in SC demand. Tight market supply allowed the Company to partially implement US$60 per ton price increases in April and July. The average 2008 soft-calendered A grade ("SC-A") benchmark price was 15.0% higher than the previous year.

Directory paper demand decreased in 2008 compared to the prior year primarily as a result of page count reductions and reduced directory book distribution. Annual contract prices for 2008 were relatively flat compared to 2007. The average directory benchmark price for 2008 was 1.4% higher than in 2007.

Newsprint demand continued to deteriorate during 2008 due to falling circulation, pagination and ongoing conservation measures by publishers. Although tight market supply allowed the Company to implement nine consecutive monthly price increases of US$20 per tonne starting in January 2008, accelerating demand declines in Q4 caused newsprint prices to begin to soften late in the year. The average 2008 newsprint benchmark price was 18.7% higher than 2007.

Pulp demand was down in 2008 due to decreasing graphic paper demand in the second half of the year in the United States, Europe, and Asia resulting from the slowdown in the global economy. Strong demand early in the year pushed US$ prices to their highest level since 1995 before prices dropped rapidly in the last four months of 2008. The average NBSK benchmark price in 2008 was 5.0% higher than in 2007.

Linerboard markets started the year strong and then weakened in the second half as box shipments fell off, linerboard exports declined and inventories rose. Momentum from the first part of the year was enough to push the 2008 white top linerboard benchmark price up by 7.6% compared to 2007.

Liquidity and capital assets

On August 13, 2008, the Company refinanced its $350 million revolving operating facility, maturing July 2009, with a new $330 million revolving asset based loan facility ("ABL Facility") maturing August 2013. The ABL Facility was used to refinance the Company's debt outstanding under the previous operating facility and will provide for ongoing working capital and capital expenditure requirements as well as be available for general corporate purposes. Collateral provided consists of accounts receivable, inventories, and cash of the Company as well as a first charge on the property, plant and equipment of the Snowflake mill. Availability under the ABL Facility is determined by a borrowing base, calculated primarily on balances of eligible accounts receivable and inventory, less certain reserves. Refer to Section 5, "Liquidity and capital resources" for further details.

At December 31, 2008, the Company had $180.3 million of liquidity available, comprised of $5.0 million in cash and $175.3 million of availability on the ABL Facility. Despite positive cash flow from operations of $75.7 million in 2008, liquidity decreased by $60.5 million compared to the end of 2007. This was primarily due to a significant reduction in the borrowing base in Q4, 2008 as a result of lower accounts receivable and inventory balances following extensive curtailment related to lower market demand, as well as the closure of the Elk Falls pulp mill in November due to unavailability of sawdust fibre. A further factor was the drawdown of $48.7 million in the second quarter to provide financing for the Snowflake acquisition. Refer to Section 5, "Liquidity and capital resources" for further details.

2008 key events

- Completed the acquisition of the 347,000 tonne Snowflake recycled newsprint mill in April 2008 for a total cost of $169.8 million.
- Realized additional labour cost savings of approximately $48 million over 2007 due to the full year impact of efficiency initiatives implemented in 2007 and a further reduction in the workforce of 14% in 2008.
- Reached agreement with the CEP and PPWC on the renewal of the collective agreements for Crofton, Elk Falls, and Powell River that included a commitment to complete plans to achieve an $80 per tonne labour cost target at each mill.
- Signed new labour agreements at the Port Alberni mill incorporating an $80 per tonne labour structure resulting in a commitment of a $12 million capital upgrade on the TMP facility, a $14 million early retirement and severance program, and the restart of A4 in early May 2008.
- Announced indefinite curtailment of E1 at Elk Falls in April 2008.
- Permanently closed the Elk Falls sawdust pulp and white top linerboard operation in November 2008 due to unavailability of sawdust fibre.
- Refinanced the Company's $350 million revolving operating facility, maturing July 2009, with a new $330 million ABL Facility maturing August 2013.
- Received recognition for environmental performance and corporate social responsibility including:
  - Named a Climate Disclosure Leader in the Carbon Disclosure Project, acknowledging superior and financially relevant climate risk transparency.
  - Recognized for energy management and conservation efforts through BC Hydro's Power Smart Excellence Awards.
  - Continued inclusion in Jantzi Social Index, consisting of 60 Canadian companies that pass a set of broad-based environmental, social and governance screens.
  - Included in *Corporate Knights* magazine's list of Best 50 Canadian Corporate Citizens.

  Further details with respect to recognition and initiatives related to environmental performance and corporate social responsibility are provided in the Company's 2008 Sustainability Report, produced concurrently with the Company's 2008 Annual Report.
- Received third consecutive award of excellence for financial reporting and corporate reporting in the forest products industry category from the Canadian Institute of Chartered Accountants.

Selected annual financial information

(In millions of dollars, except where otherwise stated)	2008	2007	2006
Sales	$ 1,849.4	$ 1,714.6	$ 1,882.5
Operating earnings (loss)	(157.4)	(149.4)	3.9
EBITDA [1]	159.4	27.0	211.0
– before specific items [1]	189.5	116.7	211.0
Net earnings (loss)	(221.1)	(31.6)	(15.9)
– before specific items [1]	(28.0)	(89.3)	(25.0)
Total assets	2,423.4	2,457.1	2,641.3
Total long-term liabilities	1,208.2	1,199.1	1,342.2
EBITDA margin [1]	8.6%	1.6%	11.2%
– before specific items [1]	10.2%	6.5%	11.2%
Net earnings (loss) per share (in dollars) – basic and diluted	$ (0.66)	$ (0.15)	$ (0.07)
– before specific items	(0.08)	(0.42)	(0.12)
Sales (000 tonnes)			
Specialty printing papers	1,080.8	1,054.8	990.2
Newsprint	601.8	496.3	699.1
Total paper	1,682.6	1,551.1	1,689.3
Pulp	506.9	603.2	626.2
Total sales	2,189.5	2,154.3	2,315.5
Production (000 tonnes)			
Specialty printing papers	1,060.1	1,055.4	983.7
Newsprint	596.8	472.8	703.7
Total paper	1,656.9	1,528.2	1,687.4
Pulp	503.4	601.8	624.3
Total production	2,160.3	2,130.0	2,311.7
US$/CDN$ foreign exchange [2]			
Average spot rate	0.938	0.930	0.882
Period-end spot rate	0.817	1.012	0.858
Average effective rate	0.947	0.917	0.872
Common shares (millions)			
At period end	381.8	214.7	214.6
Weighted average	336.1	214.7	214.6

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin before specific items, net earnings (loss) before specific items, and net earnings (loss) per share before specific items are non-GAAP measures. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items, as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Foreign exchange rates:
- a) Average spot rate is the average Bank of Canada noon spot rate over the reporting period.
- b) Period-end spot rate is the Bank of Canada noon spot rate on December 31.
- c) Average effective rate represents a blended rate which takes account of the applicable spot rates, the Company's revenue hedging program in the period, and translation of U.S. dollar denominated working capital at period opening and closing rates. See Section 9, "Summary of quarterly results" for further details.

Strategy

The Company's long-term objective is to achieve higher sustainable earnings and maximize cash flow by focusing on reducing manufacturing costs and optimizing its brands and customer base.

Key performance drivers

The Company believes the following key performance drivers are critical to achieving its strategic goals and creating value for its investors:

Market position

Market position is a significant driver of the Company's success. As one of the largest producers of specialty printing papers in North America, and the largest producer in Western Canada, market penetration and diversification are important. The Company's brand names are well recognized in the marketplace and it has built a reputation for reliability, value and service.

Product mix

The Company is focused on optimizing its product mix by developing higher-value grades, which allow it to exploit niche opportunities in the marketplace. In recent years, the Company has introduced new product lines which include Electraprime (an SC-A alternative), Electrastar (a super-bright), Electrabrite Lite (a lightweight high-bright), and Electracote Brite (a higher brightness Electracote grade). In addition, the Company has introduced a high cedar-pulp grade. These newer and more specialized products generally provide higher margins and improved demand prospects than standard commodity grades. The Company also manages fluctuations in demand for its products through its ability to switch production capacity between products, particularly newsprint, directory, and machine-finished uncoated mechanical grades. In addition, market pulp further diversifies the product mix.

Supply chain

Distribution costs have a significant impact on net sales realizations. The Company's strong and flexible distribution network optimizes all transportation modes available to it, such as truck, rail, and break-bulk and container shipping.

The B.C. mill sites directly ship break-bulk paper and pulp to offshore customers via regularly scheduled vessels. The Company operates a central distribution centre in Surrey, B.C. which receives volumes from its four B.C. manufacturing sites and then ships via rail, truck and container to its customers. This allows the Company to choose the most cost effective transportation mode in conjunction with customer requirements.

The Company leases 980 rail cars to ensure on-time delivery to its rail customers and the Company leases five paper barges which it uses to transport its products to the Surrey distribution centre. Controlling key elements of its supply chain has allowed the Company to achieve a high on-time performance and low damage level.

Cost-competitive manufacturing

The Company's manufacturing costs are key to being competitive over the long-term particularly with respect to fibre, energy, and labour and the Company is focused on reducing these costs and improving margins. Over the past five years, capital expenditures of approximately $384 million have been made primarily in the interests of shifting production towards higher-margin printing papers, reducing unit production costs, increasing machine productivity, improving product quality, and meeting or exceeding environmental regulations. In addition, significant workforce reductions over the last two years have improved the Company's cost structure.

Over the last several years, the Company has developed expertise in the production of lightweight papers. Lower basis-weight papers improve the Company's margins by decreasing fibre, shipping, and storage and handling expenses.

Major industry property taxes in the Company's four mill operating communities in B.C. are well above other North American jurisdictions. Property tax payments in 2008 in these four municipalities were approximately $23 million. The Company has identified municipal property tax reduction as a priority in 2009.

Production and capacity utilization

The ability to increase production rates and minimize production downtime impacts the Company's per unit cash costs. Over the last several years, the Company has been focused on improving machine productivity through several initiatives such as implementing an asset reliability program, operator technical training, and reduction of machine dry-end losses.

Corporate social responsibility

Corporate social responsibility is one of the Company's core values. The Company judges success in this area in part through the safety and well-being of its employees, the sustainability of the Company's practices and products with respect to their impact on the environment, and its relationships with operating communities and other stakeholders. A complete description of the Company's commitments and progress with respect to corporate social responsibility is provided in the Company's 2008 Sustainability Report, produced concurrently with the Company's 2008 Annual Report.

Key performance indicators

The Company believes the following key performance indicators provide meaningful measurement of the Company's progress in achieving its strategic goals and creating value for investors:

Safety

The Company's first operating priority is the safety of its employees. Key metrics include the medical incident rate ("MIR"), which is the number of incidents requiring medical attention per 200,000 hours worked, and the lost-time injury frequency ("LTI"), which is the number of lost-time injuries per 200,000 hours worked. The Company's safety performance, as reflected in these two measures, declined during 2008, although there was improvement as measured by average severity of injuries. Additional details on 2008 safety results are provided in the Company's 2008 Sustainability Report, produced concurrently with the Company's 2008 Annual Report.

EBITDA and EBITDA before specific items

EBITDA and EBITDA before specific items are widely used in the financial community to compare the profitability of corporations, and are used by management as an indicator of relative operating performance. Further analysis and discussion of these indicators are provided in all discussions of operations and in Section 10, "Non-GAAP measures".

Average sales revenue per tonne

Average sales revenue per tonne for each product line provides key insights into how the Company maximizes its market position and product mix. The main factors in revenue growth are U.S. dollar transaction prices, and the relationship between the Canadian and U.S. dollar. Details on 2008 results are provided in Section 2, "Segmented results – annual" and Section 3, "Segmented results – quarterly".

Average delivered cash costs per tonne and average delivered cash costs per tonne before specific items

Reducing cash costs while maintaining product quality is essential to sustaining profitability in each of the Company's core businesses. The Company continually examines all areas of its business for cost-reduction opportunities. The Company is currently targeting a labour cost structure of $80 per tonne at each mill as a key element of reducing costs. Details on 2008 results are provided in Section 2, "Segmented results – annual" and Section 3, "Segmented results – quarterly".

Free cash flow

Free cash flow is a measure of cash that is generated from operations after capital expenditures, interest and income tax payments, and funding of employee future benefits, but before acquisitions, proceeds from rights offering and divested assets, and changes in working capital items. Further analysis and discussion of this indicator is provided in Section 10, "Non-GAAP measures".

Leverage and interest coverage

The Company's success also depends on its liquidity and continued ability to finance its growth. The Company focuses on net-debt to net-capitalization, net-debt to EBITDA, and EBITDA to interest ratios in order to assess its capital structure. Further analysis and discussion of these indicators are provided in Section 5, "Liquidity and capital resources".

Greenhouse gas emissions ("GHG")

The Company has long recognized the importance of GHG reductions, from the perspective of both stakeholder expectations and expanding regulatory requirements. The Company's overall carbon footprint increased in 2008 with the acquisition of the Snowflake mill, which is located in a heavily fossil fuel-dependent jurisdiction and whose primary energy source is coal. At its Canadian operations, however, direct GHG emissions were down 73% in 2008 relative to 1990 levels on an absolute basis (70% on an intensity basis). Further details are provided in the Company's 2008 Sustainability Report, produced concurrently with the Company's 2008 Annual Report.

2008 strategic initiatives

Snowflake mill acquisition

The acquisition of the Snowflake mill was completed on April 10, 2008, providing the Company with additional production capacity of 347,000 tonnes of recycled newsprint. This low-cost mill provides geographic, fibre and currency diversification. The mill's location allows better service to customers in the Southwest and Southern U.S., and enables the Company to focus its B.C. newsprint production on freight-logical markets, taking advantage of convenient access to ocean freight. On an annualized run-rate basis, the Company generated synergies of US$9.2 million in 2008 through various optimization initiatives.

Development of new grades

The Company continues to develop new grades as a way of protecting and increasing market share in its core region, Western North America. In addition to increased market penetration, these new products, and a broader product range in general, provide the company with more flexibility to meet evolving customer needs. In 2008, for example, the Company developed Electracote Brite, a higher brightness, heavier basis weight LWC grade aimed at replacing traditional coated mechanical number four grades. With more options for its paper machines, the Company believes it will achieve better overall operating margins.

Market share growth in uncoated mechanical grades

In 2008, the Company targeted growth in sales of its uncoated mechanical grades. These grades have typically seen more stable market demand dynamics than both newsprint and coated grades and have enabled the Company to offset to some extent the declines in newsprint demand seen over recent years. Due to the flexibility of the Company's machines, growth in uncoated grades has been achieved with minimal capital cost. The Company increased sales of its uncoated grades by 48,600 tonnes in 2008, or 9.5%, despite a 0.9% decline in the total uncoated North American shipments.

Labour cost target

In November 2008, the Company reached an agreement on the renewal of the collective agreements with the locals of the CEP and PPWC at its mills in Crofton, Elk Falls and Powell River. The agreements have a four-year term, expiring April 30, 2012, and include a commitment to complete plans which will assist the Company in reaching its target of an $80 per tonne labour cost structure at each mill. A structure designed to achieve $80 per tonne labour costs was implemented at Port Alberni pursuant to new five-year collective agreements with the CEP locals at this mill concluded in February 2008.

TMP investment at Port Alberni

In February 2008, after reaching agreements with the two CEP locals in Port Alberni that puts in place work practices that bring labour costs to competitive industry levels, the Company announced a $12 million capital upgrade to Port Alberni's TMP facility and the restart of the No. 4 paper machine which had been curtailed in September 2007. The capital upgrade is expected to be completed by May 2009 and will increase TMP capacity and displace recycled de-inked pulp, further improving the cost competitiveness of the Port Alberni mill.

Opportunities in Asian market

In 2008, the Company served notice of its intention to terminate the distribution agreement relating to sales of paper in Asia. Sales under this distribution agreement represent approximately 5% of the Company's paper sales volume. The agreement will terminate at the end of April 2009. The Company views Asia as a strategically important market for its products given the growth dynamics in that region in recent years and the Company's ability to service that market cost effectively from its B.C. mills. The Company is in the process of establishing its own network of agents throughout Asia that will allow the Company to increase its market penetration in that region and at a lower cost than its previous arrangements.

For details of the Company's key priorities for 2009, see Section 16, "Outlook".

Consolidated results of operations

Year ended December 31, 2008 compared to year ended December 31, 2007

Sales

Sales in 2008 increased $134.8 million, or 7.9%. The increase can be attributed to higher average transaction prices across the Company's products, increased uncoated mechanical volume and the impact of the Snowflake acquisition on newsprint volumes. These increases were partially offset by lower pulp and white top linerboard volumes resulting from the curtailment and closure of the Elk Falls sawdust pulp and white top linerboard operation and market-related curtailments in paper mills and at the Crofton pulp mill.

The following table highlights the factors that affected the Company's sales by segment:

Sales
($ millions)

Year ended December 31,	2008	2007	Total change	Increase (decrease) from 2007 as a result of Volume[1]	Price	Mix	F/X
Specialty printing papers	$ 1,000.9	$ 919.6	$ 81.3	$ 22.7	$ 86.6	$ (2.0)	$ (26.0)
Newsprint	463.9	338.0	125.9	95.2	39.2	2.9	(11.4)
Total paper	1,464.8	1,257.6	207.2	117.9	125.8	0.9	(37.4)
Pulp	384.6	457.0	(72.4)	(73.0)	16.8	1.8	(18.0)
Total	$ 1,849.4	$ 1,714.6	$ 134.8	$ 44.9	$ 142.6	$ 2.7	$ (55.4)

1 Includes impact of Snowflake sales.

EBITDA and EBITDA before specific items

($ millions)	EBITDA[1]	EBITDA before specific items[1,3]
2007 EBITDA	$ 27.0	$ 116.7
Paper prices	126.7	126.7
Pulp prices	18.6	18.6
Impact of Canadian dollar on sales, inclusive of hedging[2]	(55.4)	(55.4)
Production volume and mix (including Snowflake)	10.2	(21.1)
Distribution costs	(14.2)	(14.2)
Fibre mix and costs	(7.6)	(9.9)
Chemical costs	(6.2)	(6.2)
Fuel mix and costs	(13.4)	(16.4)
Labour costs	49.2	56.1
Maintenance	20.0	22.4
Other fixed costs (including Snowflake)	(32.2)	(29.7)
Lower of cost or market write-down in inventories	(5.9)	(5.9)
Restructuring costs	34.6	–
Other, net	8.0	7.8
2008 EBITDA	$ 159.4	$ 189.5

1 EBITDA and EBITDA before specific items are non-GAAP measures. Refer to Section 10, "Non-GAAP measures" for further details.

2 Estimated total impact on EBITDA of average foreign exchange effective rate movement period-to-period is negative $39 million.

3 Specific items in 2007 included the impact of the USW strike of $25.0 million. This impact has been attributed to the relevant line items in the reconciliation above.

Operating earnings (loss)

The Company's operating loss increased by $8.0 million in 2008, compared to 2007. Higher EBITDA of $132.4 million and lower amortization expense of $10.6 million were more than offset by the $151.0 million impairment charge in 2008, of which $136.4 million related to the Elk Falls pulp and white top linerboard operation.

Net earnings (loss)

Net loss of $221.1 million in 2008 ($0.66 per common share) increased $189.5 million compared to a net loss of $31.6 million ($0.15 per common share) in 2007. Net loss before specific items in 2008 was $28.0 million ($0.08 per common share), an improvement of $61.3 million from a net loss before specific items of $89.3 million ($0.42 per common share) in the previous year. Refer to Section 10, "Non-GAAP measures" for details on net earnings (loss) before specific items.

The following table reconciles 2008 net earnings (loss) to 2007:

($ millions)	Pre-tax	After-tax
2007 net earnings (loss)	**$ (131.6)**	**$ (31.6)**
Higher EBITDA before specific items	72.8	53.8
Lower restructuring costs	34.6	21.9
Impact of the USW strike in 2007	25.0	16.5
Lower amortization expense	10.6	2.0
Impairment charge in 2008	(151.0)	(111.0)
Change in foreign exchange loss on long-term debt	(186.1)	(155.7)
Higher other income, net	17.8	11.8
Higher interest expense	(4.3)	(5.1)
Income tax adjustments, net	–	(23.0)
Non-controlling interest	(0.7)	(0.7)
2008 net earnings (loss)	**$ (312.9)**	**$ (221.1)**

2. Segmented results – annual

Specialty printing papers

(In millions of dollars, except where otherwise stated)	2008	2007	2006
Sales	$ 1,000.9	$ 919.6	$ 918.4
Operating earnings (loss)	27.0	(75.1)	9.7
EBITDA [1]	139.5	26.2	104.8
– before specific items [1]	150.1	73.4	104.8
EBITDA margin [1]	13.9%	2.8%	11.4%
– before specific items [1]	15.0%	8.0%	11.4%
Sales (000 tonnes)	1,080.8	1,054.8	990.2
Production (000 tonnes)	1,060.1	1,055.4	983.7
Curtailment (000 tonnes) [2]	31.1	7.2	–
Average sales revenue per tonne	$ 926	$ 872	$ 928
Average delivered cash costs per tonne [3]	797	847	822
– before specific items [1,3]	787	802	822
Benchmark prices			
SC-A paper, 35 lb. (US$/ton) [4]	866	753	788
LWC paper, No. 5, 40 lb. (US$/ton) [4]	960	786	836
Telephone directory paper, 22.1 lb. (US$/ton) [4]	750	740	721

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin before specific items, and average delivered cash costs per tonne before specific items are non-GAAP measures. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Curtailment consists of downtime related to the USW strike in 2007 and downtime related to unavailability of fibre and market demand in 2008.

3 Average delivered cash costs per tonne consist of cost of sales, including the impact of the USW strike, selling, general and administration ("SG&A") costs, and restructuring and change-of-control costs.

4 Benchmark selling prices are sourced from Resource Information Systems, Inc. ("RISI").

Markets

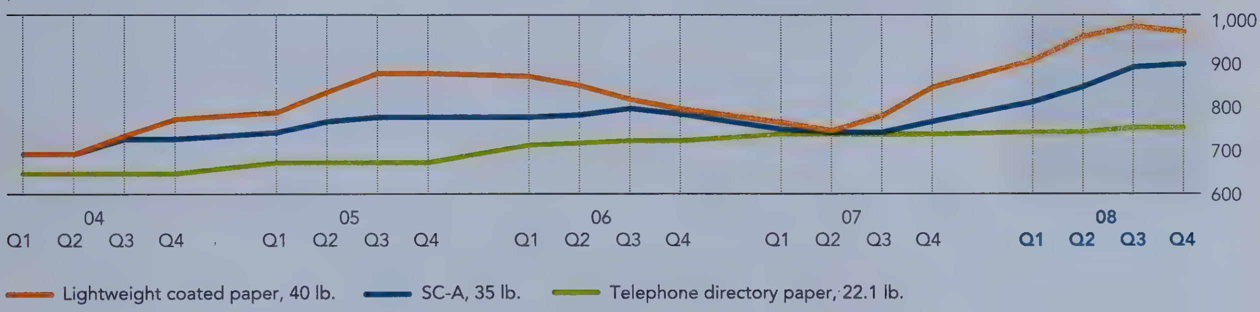
During 2008, market conditions for most of our specialty printing paper products were mixed.

Coated mechanical demand was 15.5% lower in 2008 compared to 2007. This decline was a result of the overall weakness in the economy and its impact on the level of print advertising by retailers in relevant end markets, in particular magazine and catalogue. The coated market was tight in the first part of the year primarily due to significant capacity reductions in North America and Western Europe. Following price increases in the second half of 2007, LWC prices increased further in the first three quarters of 2008 with the Company announcing two price increases of US$60 per ton, effective April 1 and July 1. Significant decline in demand combined with rising mill and consumer inventories caused prices to weaken in Q4. The average 2008 LWC benchmark price increased US$174 per ton, or 22.1%, over 2007.

Demand for uncoated mechanical grades was down 2.7% in 2008. Reduced advertising due to the weaker economy and grade switching to lower-cost standard grades by some retailers led to a decline in demand for high-gloss grades of 8.2% compared to 2007. Demand for standard grades was up 4.0% as they benefited from this grade switching. Uncoated pricing was strong and two consecutive US$60 per ton price increases were partially implemented in the second and third quarters. The average benchmark price for SC-A in 2008 increased US$113 per ton, or 15.0%, over 2007.

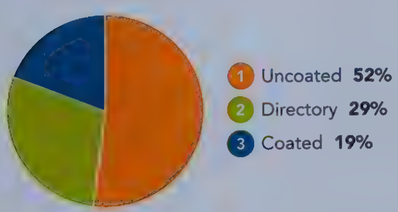
Directory paper demand was down 9.5% in 2008. The decline was largely due to page-count reductions and reduced directory book distribution. Annual contract prices for 2008 were relatively flat compared to 2007 and the July 1, 2008 US$60 per ton price increase on spot sales of directory was partially implemented. The average benchmark price for directory in 2008 increased US$10 per ton, or 1.4%, over 2007.

Specialty paper grades Average delivered to U.S. benchmark transaction price (US$ per short tonne)
(Source: RISI)



The 2008 specialty printing papers product-grade distribution, based on sales volumes, is depicted in the chart below:

2008 specialty printing papers product sales distribution (% tonnes)



The 2008 geographic sales distribution, based on sales volumes, is depicted in the chart below:

2008 specialty printing papers geographic sales distribution (% tonnes)

Segment overview

North American print advertising is a key driver for the Company's specialty printing papers business with approximately 90% of its product traditionally sold to this market. Among its initiatives to improve profitability, the Company continues to develop new specialty grades and look for ways to further optimize its product, customer and geographic mix.

Sales volumes for LWC in 2008 were down 8,700 tonnes, or 4.1%, from the previous year compared to a 16.2% decline in total North American coated mechanical shipments. This reduction in the Company's volume was due to capacity curtailment and grade switching on the LWC machine at Port Alberni due to weak market demand in 2008.

Sales volumes for uncoated mechanical grades in 2008 increased 48,600 tonnes, or 9.5%, from 2007 despite a 0.9% decline in total North American uncoated shipments in 2008. This growth in uncoated mechanical market share was seen in both SC and MF grades and primarily reflects the leveraging of the Company's strong position in Western North America with retailers and printers.

Sales volumes for directory in 2008 decreased 13,900 tonnes, or 4.2%, compared to 2007. This compared to a 5.9% decline in total North American directory shipments caused by page-count reductions and reduced directory book distribution. Despite a drop in sales volume the Company's strong reputation in the directory market led to increased market share in the year.

Operational performance

Operating earnings for the specialty printing papers segment of $27.0 million in 2008 improved $102.1 million compared to 2007. EBITDA and EBITDA before specific items improved $113.3 million and $76.7 million, respectively, compared to the prior year.

Sales volumes increased 26,000 tonnes compared to the previous year. The increase was largely due to switching capacity from newsprint to uncoated MF high-brights offset by reductions in LWC and directory. Average sales revenue increased $54 per tonne compared to the previous year, reflecting stronger average transaction prices across most grades that more than offset the negative impact of the stronger Canadian dollar in 2008.

Average delivered cash costs improved $50 per tonne compared to 2007. This was primarily driven by lower restructuring costs, lower labour costs due to workforce reductions and lower maintenance costs. Before the impact of specific items, average delivered cash costs were $787 per tonne, an improvement of $15 per tonne from the previous year. Refer to Section 10, "Non-GAAP measures" for details on average delivered cash costs before specific items.

Outlook

Conditions are expected to be challenging for most specialty printing paper products in 2009. Demand across most grades is anticipated to decline based on lower advertising spending. Falling demand will put pressure on pricing for LWC and uncoated grades. Contract prices for directory paper have increased in 2009.

Coated mechanical paper demand is expected to be down due to a reduction in print advertising in relevant end markets, in particular magazines and catalogues. Benchmark prices are expected to be under pressure given this negative demand environment.

Demand for uncoated mechanical grades is expected to be lower as retailers and other users further cut back print advertising in response to the weak economy. An increase in retail business failures may further negatively impact demand. Benchmark prices for uncoated are expected to be under pressure but potentially more stable than coated mechanical due to supply dynamics and the potential benefit of grade substitution.

Directory paper demand is expected to decline in 2009 due to a reduction in advertising by small to medium-size businesses and rationalization of the number of books printed and distributed by major telephone book publishers. Pricing agreements with major directory customers are in place for 2009 and price increases are estimated to average 8%.

Newsprint

(In millions of dollars, except where otherwise stated)	2008	2007	2006
Sales	$ 463.9	$ 338.0	$ 529.8
Operating earnings (loss)	3.6	(56.9)	6.9
EBITDA [1]	43.3	(23.7)	71.8
– before specific items [1]	47.4	(4.4)	71.8
EBITDA margin [1]	9.3%	(7.0%)	13.6%
– before specific items [1]	10.2%	(1.2%)	13.6%
Sales (000 tonnes)	601.8	496.3	699.1
Production (000 tonnes)	596.8	472.8	703.7
Curtailment (000 tonnes) [2]	195.3	98.9	–
Average sales revenue per tonne	$ 771	$ 681	$ 758
Average delivered cash costs per tonne [3]	699	729	655
– before specific items [1,3]	692	674	655
Benchmark prices (US$/tonne) [4]			
Newsprint 48.8 gsm, West Coast delivery	687	579	649

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin before specific items, and average delivered cash costs per tonne before specific items are non-GAAP measures. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Curtailment consists of downtime related to the USW strike in 2007 and downtime related to unavailability of fibre and market demand in 2008 (including the indefinite curtailment of E1).

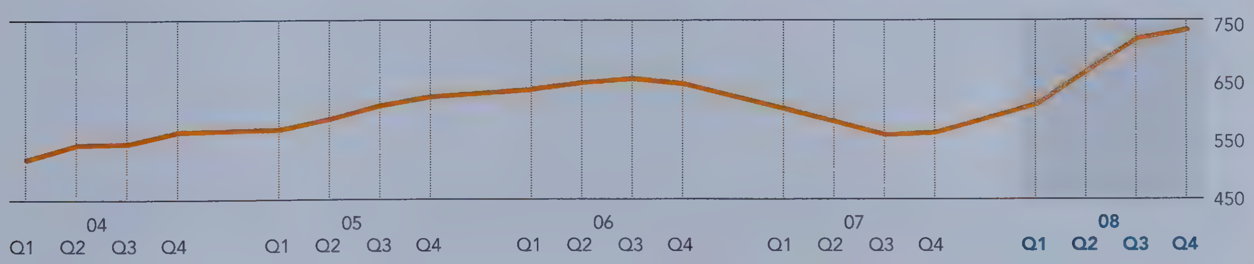
3 Average delivered cash costs per tonne consist of cost of sales, including the impact of the USW strike, SG&A costs, and restructuring and change-of-control costs.

4 Benchmark selling prices are sourced from RISI.

Markets

North American newsprint demand continued to decline in 2008 with total U.S. consumption down 13.8% year-over-year. Despite reduced demand, benchmark prices trended upwards through the first three quarters of 2008 due to strong industry operating rates resulting from reduced supply and relatively strong exports to overseas markets. The Company implemented monthly US$20 per tonne price increases from January to September with a total of US$180 per tonne for the year before positive price momentum began to reverse in Q4. The average newsprint benchmark price in 2008 was US$687 per tonne, up US$108 per tonne or 18.7% compared to 2007.

Standard newsprint Average delivered to U.S. West Coast benchmark transaction price (US$ per metric tonne)
(Source: RISI)



The 2008 geographic sales distribution, based on sales volumes, is depicted in the chart below:

2008 newsprint geographic sales distribution (% tonnes)

Segment overview

The Company continued to focus on the optimization of its newsprint portfolio in 2008 in response to a deteriorating trend in demand for newsprint. Although the Company's total production of newsprint increased by 124,000 tonnes in 2008, this was the net impact of a number of initiatives during the year designed to improve the overall competitive position of the newsprint segment:

- The acquisition of Snowflake in April 2008 increased production in the year by 215,200 tonnes of lower-cost, recycled newsprint focused on freight logical markets in the U.S. South and West.
- Following agreement on a new labour contract designed to reduce labour costs at Port Alberni to $80 per tonne, the Company restarted the A4 paper machine in early 2008 with the impact of increasing newsprint production in B.C. by 64,800 tonnes in the year.
- The Company's E1 paper machine at Elk Falls was curtailed throughout 2008, reflecting a lack of fibre in the early part of the year, weaker market demand, and a drive to optimize newsprint production on lower-cost machines. This curtailment removed the equivalent of 153,000 tonnes of newsprint production in 2008.
- In addition to E1, production was periodically curtailed during the year, particularly in Q4, on other newsprint machines. This reduced production by 42,300 tonnes in 2008, reflecting weaker demand and the Company's drive to manage inventories by matching production to customer orders. Including E1, total production curtailment in 2008 was 195,300 tonnes, an increase of 96,400 tonnes compared to curtailment in 2007.
- The Company utilized its ability to allocate machine capacity in B.C. between different grades to reduce newsprint production and increase market share in uncoated mechanical grades.

Operational performance

Newsprint segment operating earnings of $3.6 million in 2008 improved $60.5 million compared to 2007. EBITDA and EBITDA before specific items improved $67.0 million and $51.8 million, respectively, compared to 2007.

Sales volumes increased 105,500 tonnes, or 21.3%, from the previous year, primarily due to the net increase in production in 2008 of 124,000 tonnes. Average sales revenue increased $90 per tonne in 2008 compared to the previous year. The impact of higher transaction prices was partially offset by the negative impact of the stronger Canadian dollar.

Average delivered cash costs improved $30 per tonne from the previous year. Lower restructuring costs, lower maintenance costs, and lower labour costs due to workforce reductions more than outweighed higher fuel costs and the impact of increased curtailment. Before the impact of specific items, average delivered cash costs were $692 per tonne, an increase of $18 per tonne from the previous year. Refer to Section 10, "Non-GAAP measures" for details on average delivered cash costs before specific items.

Outlook

North American newsprint demand is expected to continue to decline in 2009. In response to lower revenues, newspaper publishers are expected to continue to cut costs by reducing paper consumption. As a result, the Company expects newsprint prices to weaken in 2009.

Pulp

(In millions of dollars, except where otherwise stated)	2008	2007	2006
Sales	$ 384.6	$ 457.0	$ 434.3
Operating earnings (loss)	(188.0)	(17.4)	(12.7)
EBITDA [1]	(23.4)	24.5	34.4
– before specific items [1]	(8.0)	47.7	34.4
EBITDA margin [1]	(6.1%)	5.4%	7.9%
– before specific items [1]	(2.1%)	9.8%	7.9%
Sales (000 tonnes)	506.9	603.2	626.2
Production (000 tonnes)	503.4	601.8	624.3
Curtailment (000 tonnes) [2]	134.7	54.7	–
Average sales revenue per tonne	$ 759	$ 757	$ 693
Average delivered cash costs per tonne [3]	805	717	638
– before specific items [1,3]	774	679	638
Benchmark prices			
NBSK pulp, Northern Europe delivery (US$/tonne) [4]	840	800	681
White top linerboard, 42 lb., Eastern U.S. delivery (US$/ton) [4]	750	697	673

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin before specific items, and average delivered cash costs per tonne before specific items are non-GAAP measures. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Curtailment consists of downtime related to the USW strike in 2007 and downtime related to unavailability of fibre and market demand in 2008.

3 Average delivered cash costs per tonne consist of cost of sales, including the impact of the USW strike, SG&A costs, and restructuring and change-of-control costs.

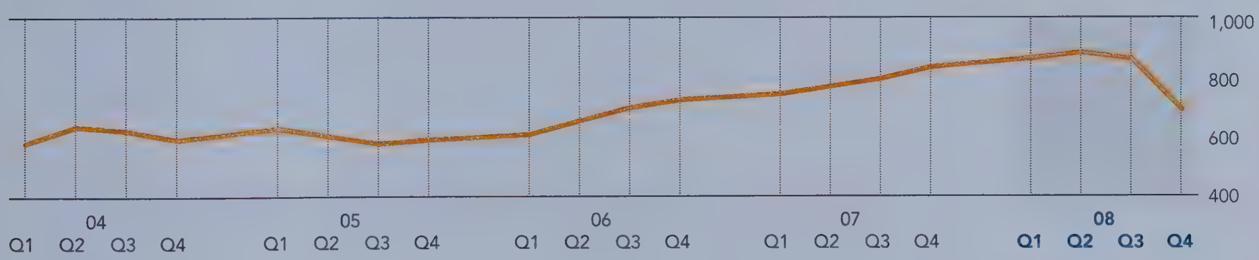
4 Benchmark selling prices are sourced from RISI.

Markets

Global pulp shipments decreased 0.9% year-over-year and global operating rates had weakened significantly by the end of 2008. Stronger demand early in the year and low inventories provided support for price increases during the first half of the year before the impact of the global economic slowdown caused prices to fall rapidly in the last four months of the year. The average Northern Europe NBSK benchmark price for 2008 was up US$40 per tonne, or 5%, compared to the previous year.

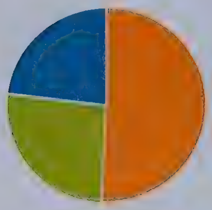
North American linerboard demand was down 3.8% compared to 2007 due to lower box shipments resulting from the weak economy. The average 2008 benchmark white top linerboard price increased US$53 per ton, or 7.6%, compared to 2007.

Northern bleached softwood kraft Average delivered to Northern Europe benchmark transaction price (US$ per metric tonne)
(Source: RISI)



The primary markets for the Company's market pulp are Asia and Europe. The 2008 geographic sales distribution, based on sales volumes, is depicted in the chart below:

2008 pulp geographic sales distribution (% tonnes)



Segment overview

Pulp segment production volumes decreased 98,400 tonnes, or 16.4% in 2008 as a result of fibre-related curtailments at Elk Falls and market-related curtailments at Crofton.

Unavailability of sawdust fibre led the Company to curtail production at its Elk Falls sawdust pulp and white top linerboard operation periodically throughout 2008, and led to its permanent closure on November 18, 2008. This reduced pulp and white top linerboard production by 126,700 tonnes in 2008. The annualized impact of this permanent closure is a reduction of the Company's annual capacity by 200,000 tonnes of market pulp and 131,000 tonnes of white top linerboard.

The Company also curtailed production at its Crofton mill in the fourth quarter as a result of reduced market demand and the Company's strategy of matching production with customer orders and to maintain appropriate inventory levels. The Crofton pulp mill curtailment in Q4 reduced market pulp production by 8,000 tonnes in the year.

Operational performance

The pulp segment operating loss of $188.0 million in 2008 increased $170.6 million compared to 2007, primarily due to lower EBITDA and the $136.4 million impairment charge related to the Elk Falls sawdust pulp and white top linerboard operation. EBITDA and EBITDA before specific items decreased $47.9 million and $55.7 million, respectively, compared to 2007. Refer to Section 10, "Non-GAAP measures" for details on EBITDA before specific items.

Sales volumes decreased 96,300 tonnes in 2008 from the previous year, primarily due to the fibre shortage at Elk Falls, market-related curtailment at Crofton and the closure of the Elk Falls pulp mill. Average sales revenue improved $2 per tonne compared to the previous year, due primarily to higher pulp prices, offset by a stronger Canadian dollar in 2008.

Average delivered cash costs increased $88 per tonne in 2008 compared to 2007. Increased curtailment and higher restructuring costs due to the permanent closure of the Elk Falls sawdust pulp and white top linerboard operation had a significant impact. Other factors contributing to higher costs included higher distribution costs, higher fuel and chemical costs and a $12.3 million write-down to net realizable value of the Company's long-fibre pulp finished goods inventory and related fibre as at December 31, 2008. Before specific items, average delivered cash costs were $774 per tonne, an increase of $95 per tonne from the previous year. Refer to Section 10, "Non-GAAP measures", for details on average delivered cash costs before specific items.

Outlook

Demand for NBSK pulp is expected to remain weak during the first half of 2009 due to lower pulp consumption caused by decreased worldwide graphic paper demand. As a consequence benchmark prices are also expected to remain weak in 2009.

3. Segmented results – quarterly

Selected quarterly financial information

(In millions of dollars, except where otherwise stated)	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Total	2007 Q4	2007 Q3	2007 Q2	2007 Q1
Sales	$ 1,849.4	$ 492.2	$ 504.8	$ 452.9	$ 399.5	$ 1,714.6	$ 381.0	$ 413.7	$ 441.8	$ 478.1
Operating earnings (loss)	(157.4)	11.5	14.0	(153.3)	(29.6)	(149.4)	(27.7)	(44.3)	(46.7)	(30.7)
EBITDA [1]	159.4	64.7	53.1	29.5	12.1	27.0	15.1	(0.3)	(1.9)	14.1
– before specific items [1]	189.5	65.9	66.2	30.7	26.7	116.7	28.8	37.4	17.4	33.1
Net earnings (loss)	(221.1)	(48.5)	(10.9)	(124.3)	(37.4)	(31.6)	12.4	(18.6)	0.2	(25.6)
– before specific items [1]	(28.0)	9.3	7.2	(22.7)	(21.8)	(89.3)	(20.9)	(16.9)	(31.8)	(19.7)
EBITDA margin [1]	8.6%	13.1%	10.5%	6.5%	3.0%	1.6%	4.0%	(0.1%)	(0.4%)	2.9%
– before specific items [1]	10.2%	13.4%	13.1%	6.8%	6.7%	6.5%	6.6%	8.5%	3.9%	6.9%
Net earnings (loss) per share (in dollars)										
– basic and diluted	$ (0.66)	$ (0.13)	$ (0.03)	$ (0.34)	$ (0.17)	$ (0.15)	$ 0.06	$ (0.09)	$ –	$ (0.12)
– before specific items [1]	(0.08)	0.02	0.02	(0.06)	(0.10)	(0.42)	(0.10)	(0.08)	(0.15)	(0.09)
Sales (000 tonnes)										
Specialty printing papers	1,080.8	276.2	268.7	267.4	268.5	1,054.8	279.3	261.1	259.2	255.2
Newsprint	601.8	160.2	189.0	170.8	81.8	496.3	70.7	119.8	157.1	148.7
Total paper	1,682.6	436.4	457.7	438.2	350.3	1,551.1	350.0	380.9	416.3	403.9
Pulp	506.9	93.5	138.0	130.0	145.4	603.2	136.1	151.8	147.4	167.9
Total sales	2,189.5	529.9	595.7	568.2	495.7	2,154.3	486.1	532.7	563.7	571.8
Production (000 tonnes)										
Specialty printing papers	1,060.1	250.0	276.0	265.7	268.4	1,055.4	265.8	262.6	270.4	256.6
Newsprint	596.8	152.7	188.9	172.2	83.0	472.8	60.9	110.9	148.9	152.1
Total paper	1,656.9	402.7	464.9	437.9	351.4	1,528.2	326.7	373.5	419.3	408.7
Pulp	503.4	89.2	131.3	142.9	140.0	601.8	144.7	143.2	157.1	156.8
Total production	2,160.3	491.9	596.2	580.8	491.4	2,130.0	471.4	516.7	576.4	565.5
US$/CDN$ foreign exchange [2]										
Average spot rate	0.938	0.825	0.961	0.990	0.996	0.930	1.019	0.957	0.911	0.854
Period-end spot rate	0.817	0.817	0.944	0.982	0.973	1.012	1.012	1.004	0.940	0.867
Average effective rate	0.947	0.868	0.971	0.989	0.967	0.917	0.970	0.935	0.916	0.860
Common shares (millions)										
At period-end	381.8	381.8	381.8	381.8	214.7	214.7	214.7	214.7	214.7	214.6
Weighted average	336.1	381.8	381.8	365.2	214.7	214.7	214.7	214.7	214.7	214.6

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin before specific items, net earnings (loss) before specific items, and net earnings (loss) per share before specific items are non-GAAP measures. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items, as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Foreign exchange rates:
- a) Average spot rate is the average Bank of Canada noon spot rate over the reporting period.
- b) Period-end spot rate is the Bank of Canada noon spot rate.
- c) Average effective rate represents a blended rate which takes account of the applicable spot rates, the Company's revenue hedging program in the period, and translation of U.S. dollar denominated working capital at period opening and closing rates. See Section 9, "Summary of quarterly results" for further details.

Summary of selected segmented financial information

(In millions of dollars, except where otherwise stated)	2008					2007				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Specialty printing papers										
Sales	$ 1,000.9	$ 281.9	$ 248.7	$ 235.3	$ 235.0	$ 919.6	$ 234.3	$ 222.1	$ 225.1	$ 238.1
Operating earnings (loss)	27.0	22.6	14.6	(0.2)	(10.0)	(75.1)	(13.5)	(26.3)	(21.1)	(14.2)
EBITDA [1]	139.5	58.9	40.5	25.6	14.5	26.2	12.5	–	4.1	9.6
– before specific items [1]	150.1	57.9	40.6	26.1	25.5	73.4	16.1	17.6	17.0	22.7
EBITDA margin [1]	13.9%	20.9%	16.3%	10.9%	6.2%	2.8%	5.3%	–	1.8%	4.0%
– before specific items [1]	15.0%	20.5%	16.3%	11.1%	10.9%	8.0%	6.9%	8.0%	7.6%	9.5%
Sales (000 tonnes)	1,080.8	276.2	268.7	267.4	268.5	1,054.8	279.3	261.1	259.2	255.2
Production (000 tonnes)	1,060.1	250.0	276.0	265.7	268.4	1,055.4	265.8	262.6	270.4	256.6
Curtailment (000 tonnes) [2]	31.1	27.5	2.7	–	0.9	7.2	4.0	3.2	–	–
Average sales revenue per tonne	$ 926	$ 1,020	$ 925	$ 880	$ 875	$ 872	$ 839	$ 850	$ 868	$ 933
Average delivered cash costs per tonne [3]	797	807	775	785	821	847	794	849	852	896
– before specific items [3]	787	810	774	783	780	802	783	781	802	845
SC-A paper, 35 lb. (US$/ton) [4]	866	902	895	850	815	753	770	745	745	752
LWC paper, No. 5, 40 lb. (US$/ton) [4]	960	975	988	965	910	786	848	782	748	767
Telephone directory paper, 22.1 lb. (US$/ton) [4]	750	755	755	745	745	740	740	740	740	740
Newsprint										
Sales	$ 463.9	$ 143.0	$ 148.9	$ 118.3	$ 53.7	$ 338.0	$ 44.2	$ 77.8	$ 106.7	$ 109.3
Operating earnings (loss)	3.6	10.6	11.9	(6.9)	(12.0)	(56.9)	(14.5)	(15.6)	(13.5)	(13.3)
EBITDA [1]	43.3	23.6	21.5	3.0	(4.8)	(23.7)	(8.3)	(8.1)	(4.2)	(3.1)
– before specific items [1]	47.4	23.5	21.6	3.5	(1.2)	(4.4)	(4.4)	(0.4)	(0.2)	0.6
EBITDA margin [1]	9.3%	16.5%	14.4%	2.5%	(8.9%)	(7.0%)	(18.8%)	(10.4%)	(3.9%)	(2.8%)
– before specific items [1]	10.2%	16.4%	14.5%	3.0%	(2.2%)	(1.2%)	(5.5%)	(0.8%)	0.0%	0.0%
Sales (000 tonnes)	601.8	160.2	189.0	170.8	81.8	496.3	70.7	119.8	157.1	148.7
Production (000 tonnes)	596.8	152.7	188.9	172.2	83.0	472.8	60.9	110.9	148.9	152.1
Curtailment (000 tonnes) [2]	195.3	72.7	42.7	38.3	41.6	98.9	65.8	33.1	–	–
Average sales revenue per tonne	$ 771	$ 893	$ 788	$ 692	$ 657	$ 681	$ 625	$ 650	$ 679	$ 735
Average delivered cash costs per tonne [3]	699	746	674	675	716	729	742	720	706	756
– before specific items [3]	692	746	674	672	671	674	636	646	681	731
Newsprint 48.8 gsm, West Coast delivery (US$/tonne) [4]	687	741	726	670	613	579	565	561	584	606

Summary of selected segmented financial information (continued)

(In millions of dollars, except where otherwise stated)	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Total	2007 Q4	2007 Q3	2007 Q2	2007 Q1
Pulp										
Sales	$ 384.6	$ 67.3	$ 107.2	$ 99.3	$ 110.8	$ 457.0	$ 102.5	$ 113.8	$ 110.0	$ 130.7
Operating earnings (loss)	(188.0)	(21.7)	(12.5)	(146.2)	(7.6)	(17.4)	0.3	(2.4)	(12.1)	(3.2)
EBITDA [1]	(23.4)	(17.8)	(8.9)	0.9	2.4	24.5	10.9	7.8	(1.8)	7.6
– before specific items [1]	(8.0)	(15.5)	4.0	1.1	2.4	47.7	17.1	20.2	0.6	9.8
EBITDA margin [1]	(6.1%)	(26.4%)	(8.3%)	0.9%	2.2%	5.4%	10.6%	6.9%	(1.6%)	5.8%
– before specific items [1]	(2.1%)	(23.0%)	3.7%	1.1%	2.2%	9.8%	14.2%	16.2%	0.5%	7.5%
Sales (000 tonnes)	506.9	93.5	138.0	130.0	145.4	603.2	136.1	151.8	147.4	167.9
Production (000 tonnes)	503.4	89.2	131.3	142.9	140.0	601.8	144.7	143.2	157.1	156.8
Curtailment (000 tonnes) [2]	134.7	70.5	24.8	17.2	22.2	54.7	26.8	27.9	–	–
Average sales revenue per tonne	$ 759	$ 719	$ 777	$ 764	$ 762	$ 757	$ 753	$ 750	$ 746	$ 778
Average delivered cash costs per tonne [3]	805	910	841	758	746	717	672	699	759	732
– before specific items [3]	774	886	748	756	746	679	637	622	743	719
NBSK pulp, Northern Europe delivery (US$/tonne) [4]	840	703	878	900	880	800	850	810	783	757
White top linerboard, 42 lb., Eastern U.S. delivery (US$/ton) [4]	750	780	780	720	720	697	720	707	680	680

1 EBITDA, EBITDA before specific items, EBITDA margin, EBITDA margin before specific items, and average delivered cash costs per tonne before specific items are non-GAAP measures. EBITDA margin and EBITDA margin before specific items are defined as EBITDA and EBITDA before specific items as a percentage of sales and adjusted sales, respectively. Refer to Section 10, "Non-GAAP measures" for further details.

2 Curtailment consists of downtime related to the USW strike in 2007 and downtime related to unavailability of fibre and market demand in 2008. Includes impact on production in Q4, 2008 post closure of the pulp mill and white top linerboard operation in November 2008 (39,200 tonnes in Q4 from date of permanent closure to year-end).

3 Average delivered cash costs per tonne consist of cost of sales, including the impact of the USW strike, SG&A costs, and restructuring and change of-control costs.

4 Benchmark selling prices are sourced from RISI.

Fourth quarter overview

The rapid deterioration in the global economic environment in Q4 affected a number of the Company's key performance drivers during the quarter. A significant decline in the Canadian dollar relative to the U.S. dollar, lower old newspaper ("ONP") costs, and the first signs of weaker input costs linked to energy prices were all positive factors. However, these factors were offset by the impact of weaker demand, which led to increased production curtailment, lower pulp prices, and stalled momentum on paper prices. In addition, the very weak housing market in the U.S. resulted in lumber markets that continued to be very challenging, and in significantly reduced output of chips and sawdust from sawmills. This led to the closure of the Elk Falls sawdust pulp and white top linerboard operation in November 2008, due to unavailability of sawdust fibre.

The Company recorded a net loss of $48.5 million ($0.13 per common share) in Q4, compared to a net loss of $10.9 million ($0.03 per common share) in the third quarter ("Q3"). Excluding specific items, Q4 generated net earnings of $9.3 million ($0.02 per common share) compared to net earnings before specific items of $7.2 million ($0.02 per common share) in Q3. Refer to Section 10, "Non-GAAP measures" for details on net earnings (loss) before specific items.

EBITDA was $64.7 million in Q4 compared to $53.1 million in Q3. The Company's results included restructuring costs of $1.2 million and $13.1 million for Q4 and Q3, respectively. Q4 EBITDA before specific items of $65.9 million was in line with EBITDA before specific items of $66.2 million in Q3.

The following table summarizes pulp and paper production curtailment in Q4, 2008:

2008 – Q4 production curtailment

(000 tonnes)	Paper: Newsprint	Paper: Specialty printing papers	Pulp: Pulp and white top linerboard	Total
Snowflake	15.4	–	–	15.4
Port Alberni	–	9.3	–	9.3
Crofton	9.3	3.6	8.0	20.9
Powell River	5.9	12.5	–	18.4
Elk Falls	42.1 [1]	2.1	62.5 [2]	106.7
Total	72.7	27.5	70.5	170.7

1 Curtailment includes 38,250 tonnes related to E1 which is indefinitely curtailed due to the decline in market demand for newsprint.
2 Includes impact on production of the closure of the Elk Falls sawdust pulp mill and white top linerboard operation in November 2008 (39,200 tonnes in Q4 from date of permanent closure to year end).

Production curtailment in Q4 of 170,700 tonnes increased compared to curtailment of 70,200 tonnes in Q3 and enabled the Company to manage its paper inventory to an appropriate level.

Consolidated results of operations

Three months ended December 31, 2008 compared to three months ended September 30, 2008

Sales

Sales in Q4, 2008 decreased $12.6 million, or 2.5%, compared to Q3, 2008. The decrease in sales was largely due to increased curtailment in Q4 and lower pulp prices which more than offset the positive impact of the weaker Canadian dollar.

EBITDA and EBITDA before specific items

($ millions)	EBITDA[1]	EBITDA before specific items[1]
Q3, 2008	**$ 53.1**	**$ 66.2**
Paper prices	2.4	2.4
Pulp prices	(11.6)	(11.6)
Impact of Canadian dollar on sales, inclusive of hedging[2]	47.0	47.0
Production volume and mix	(26.2)	(26.2)
Distribution costs	(3.5)	(3.5)
Maintenance	(3.9)	(3.9)
Lower of cost or market write-down in inventories	(9.9)	(9.9)
Restructuring costs	11.9	–
Other, net	5.4	5.4
Q4, 2008	**$ 64.7**	**$ 65.9**

1 EBITDA and EBITDA before specific items are non-GAAP measures. Refer to Section 10, "Non-GAAP measures" for further details.
2 Estimated total impact on EBITDA of average foreign exchange effective rate movement period-to-period is positive $28 million.

Operating earnings (loss)

The Company's operating earnings of $11.5 million decreased $2.5 million in Q4, compared to Q3, 2008. Higher EBITDA of $11.6 million in Q4 was more than offset by a $14.5 million asset-impairment charge related to certain specific assets in Q4.

Net earnings (loss)

Net loss in Q4, 2008 of $48.5 million ($0.13 per common share) increased $37.6 million compared to a net loss of $10.9 million ($0.03 per common share) in Q3, 2008. The increase in net loss was primarily related to an after-tax foreign exchange loss on the translation of long-term debt of $45.2 million compared to an after-tax loss of $9.1 million in Q3, 2008. Net earnings before specific items in Q4, 2008 were $9.3 million ($0.02 per common share), compared to net earnings before specific items of $7.2 million ($0.02 per common share) in the previous quarter. Refer to Section 10, "Non-GAAP measures" for details on net earnings (loss) before specific items.

Operational performance – specialty printing papers

Operating earnings for the specialty printing papers segment in Q4 were $22.6 million, an increase of $8.0 million compared to Q3, 2008.

Despite lower production due to increased curtailment in Q4, sales volumes increased 7,500 tonnes from Q3 due to higher shipments of LWC and directory as inventory levels were drawn down. Average sales revenue increased $95 per tonne from the previous quarter, due primarily to the weaker Canadian dollar in Q4.

Average delivered cash costs increased $32 per tonne compared to Q3, 2008, due primarily to the impact of curtailment and higher distribution and maintenance costs. Before the impact of specific items, average cash costs were $810 per tonne, an increase of $36 per tonne from the previous quarter.

Operational performance – newsprint

Operating earnings for the newsprint segment in Q4 were $10.6 million, a decrease of $1.3 million from the previous quarter.

Sales volumes in Q4 decreased 28,800 tonnes compared to Q3, 2008, primarily due to increased production curtailment. Average sales revenue increased $105 per tonne from Q3, 2008, due primarily to the weaker Canadian dollar and the full quarter impact in Q4 of price increases implemented during the third quarter.

Average delivered cash costs increased $72 per tonne from Q3, 2008 due to the impact of curtailment and higher distribution and fuel costs. This was partially offset by lower ONP costs.

Operational performance – pulp

The pulp segment operating loss of $21.7 million in Q4 increased by $9.2 million from the previous quarter primarily as a result of increased production curtailment, lower pulp prices and an $11.1 million write-down to net realizable value of long-fibre pulp finished goods inventory and related fibre in Q4.

Sales volumes in Q4 decreased 44,500 tonnes from Q3, 2008, primarily as a result of closure of the Elk Falls sawdust pulp mill and white top linerboard operation in November 2008 and market curtailment at the Crofton pulp mill. Average sales revenue decreased $58 per tonne from Q3, 2008, with lower pulp prices more than offsetting the benefit of a weaker Canadian dollar.

Average delivered cash costs increased by $69 per tonne compared to Q3, 2008, primarily due to the impact of lower production, higher maintenance costs and the write-down to net realizable value of long-fibre pulp finished goods and related fibre inventory. This more than offset lower restructuring costs. Before specific items, average delivered cash costs were $886 per tonne, an increase of $138 per tonne from the previous quarter.

Three months ended December 31, 2008 compared to three months ended December 31, 2007

Sales

Sales increased by $111.2 million in Q4, 2008 compared to sales in Q4, 2007. Higher sales volumes for the Company's paper products, largely due to the Snowflake acquisition, higher average paper prices and the positive impact of the weaker Canadian dollar were the primary drivers offsetting lower pulp volumes and prices.

EBITDA and EBITDA before specific items

($ millions)	EBITDA[1]	EBITDA before specific items[1,3]
Q4, 2007	**$ 15.1**	**$ 28.8**
Paper prices	42.4	42.4
Pulp prices	(9.3)	(9.3)
Impact of Canadian dollar on sales, inclusive of hedging[2]	36.8	36.8
Production volume and mix (including Snowflake)	7.3	(10.2)
Distribution costs	(8.5)	(8.5)
Fibre mix and costs	(5.8)	(6.4)
Labour costs	11.9	15.9
Other fixed costs (including Snowflake)	(16.1)	(12.8)
Lower of cost or market write-down in inventories	(12.8)	(12.8)
Restructuring costs	0.8	–
Other, net	2.9	2.0
Q4, 2008	**$ 64.7**	**$ 65.9**

1 EBITDA and EBITDA before specific items are non-GAAP measures. Refer to Section 10, "Non-GAAP measures" for further details.

2 Estimated total impact on EBITDA of average foreign exchange effective rate movement period-to-period is positive $27 million.

3 Specific items in Q4, 2007 included the impact of the USW strike of $11.7 million. This impact has been attributed to the relevant line items in the reconciliation above.

Operating earnings (loss)

The Company's operating earnings of $11.5 million in Q4, 2008 increased $39.2 million compared to Q4, 2007. This increase from the comparative period was primarily related to the $49.6 million increase in EBITDA, which was offset by a $14.5 million asset-impairment charge related to certain specific assets in Q4, 2008.

Net earnings (loss)

Net loss in Q4, 2008 of $48.5 million ($0.13 per common share) decreased $60.9 million compared to net earnings of $12.4 million ($0.06 per common share) in Q4, 2007. Net loss for the current quarter included an after-tax foreign exchange loss on the translation of U.S. dollar denominated long-term debt of $45.2 million compared to an after-tax gain of $7.4 million in Q4, 2007. The comparative period in 2007 also benefited from a favourable release of future income tax provision of $35.0 million. Net earnings before these and other specific items in Q4, 2008 was $9.3 million ($0.02 per common share) compared to a net loss before specific items of $20.9 million ($0.10 per common share) in Q4, 2007. Refer to Section 10, "Non-GAAP Measures" for details on net earnings (loss) before specific items.

Operational performance – specialty printing papers

Operating earnings for the specialty printing papers segment in Q4, 2008 of $22.6 million increased by $36.1 million compared to Q4, 2007.

Sales volumes decreased 3,100 tonnes from the comparative period in 2007. This decrease was largely due to increased production curtailment in Q4, 2008, largely offset by a drawdown of inventory volume in Q4, 2008. Average sales revenue increased by $181 per tonne over the comparative period, due primarily to improved average transaction prices across most of the Company's paper products and a weaker Canadian dollar.

Average delivered cash costs increased $13 per tonne from the comparative period in 2007. This was primarily due to the impact of curtailment in Q4, 2008 and higher distribution, furnish, and chemical costs, which more than offset the impact of lower restructuring and labour costs. Before the impact of specific items, average delivered cash costs increased $27 per tonne from the comparative period in 2007.

Operational performance – newsprint

Operating earnings for the newsprint segment in Q4, 2008 of $10.6 million increased by $25.1 million compared to Q4, 2007.

Sales volumes increased 89,500 tonnes from the comparative period, primarily due to the additional sales related to the acquisition of Snowflake and to a lesser extent the re-start of the A4 paper machine in May 2008. This was partly offset by increased curtailment in Q4, 2008. Average sales revenue increased $268 per tonne due to higher transaction prices and the positive impact of the weaker Canadian dollar.

Average delivered cash costs increased $4 per tonne from the comparative period in 2007. Overall higher costs due to the impact of curtailment and higher distribution and fuel costs were offset by lower restructuring costs. Before the impact of specific items, average delivered cash costs increased $110 per tonne from the comparative period in 2007.

Operational performance – pulp

The pulp segment operating loss in Q4, 2008 of $21.7 million deteriorated by $22.0 million, compared to operating earnings in Q4, 2007 of $0.3 million. Included in operating earnings in Q4, 2008 is an $11.1 million write-down to net realizable value of long-fibre pulp finished goods and related fibre inventory.

Sales volumes decreased 42,600 tonnes from the comparative period, primarily due to the closure of the Elk Falls sawdust pulp mill and white top linerboard operation and the curtailment of 8,000 tonnes of Crofton market pulp production in Q4, 2008. Average sales revenue decreased $34 per tonne primarily due to lower average transaction prices, partly offset by the impact of the weaker Canadian dollar.

Average delivered cash costs increased $238 per tonne, from the comparative period. This reflects the impacts of the closure of the Elk Falls sawdust pulp mill and curtailment, higher distribution, furnish, fuel, chemical, and restructuring costs and write-down to net realizable value of long-fibre pulp inventory. Before the impact of specific items, average delivered cash costs increased $249 per tonne, from the comparative period in 2007.

4. Financial condition

The following table highlights the significant changes between the consolidated balance sheets as at December 31, 2008, and December 31, 2007:

(In millions of dollars)	2008	2007	Variance	Comment
Working capital	$ 201.5	$ 221.3	$ (19.8)	Decrease reflects negative mark to market positions on revenue currency hedges at December 31, 2008, lower finished goods inventories due to production curtailment in late Q4, 2008 and lower supplies and spare parts inventory. This was partly offset by a modest increase in receivables and cash and cash equivalents, and increase in current future income tax asset.
Property, plant and equipment	1,852.0	1,912.8	(60.8)	Decrease reflects amortization expense in excess of property, plant and equipment asset additions by $123.9 million and asset impairment of $151.0 million offset by capital assets related to the Snowflake acquisition.
Other assets	100.5	54.8	45.7	Increase reflects higher mark to market value of long-term debt currency hedges at December 31, 2008, higher long-term pension asset and additional deferred financing costs related to the Company's ABL Facility in 2008.
Total debt	958.7	785.8	172.9	Increase reflects the weaker Canadian dollar and the impact on translation of the Company's U.S. dollar denominated debt, and increased utilization of the Company's credit facility.
Employee future benefits	226.6	211.7	14.9	Increase reflects a number of early retirements as part of the Company's restructuring initiatives, poor pension fund investment returns in 2008 and changes in underlying actuarial assumptions.
Other long-term obligations	13.3	26.9	(13.6)	Decrease reflects lower liabilities related to the Company's restructuring initiative at the end of 2008, and reversal in the negative mark to market position on long-term debt currency hedges at December 31, 2007.
Future income taxes and deferred credits	85.4	175.9	(90.5)	Decrease consists of the following significant items: (i) a release of future income taxes of $6.9 million related to the reduction in future provincial corporate income tax rates; (ii) a reduction of $35.5 million related to the write-down of Elk Falls sawdust pulp and white top linerboard assets; and (iii) a reduction of $10.7 million related to the foreign exchange loss on debt. The balance of the reduction primarily relates to future income taxes on losses generated in 2008.
Contributed surplus	14.6	12.1	2.5	Increase relates to the recording of stock-based compensation.

5. Liquidity and capital resources

Selected annual financial information

(In millions of dollars, except where otherwise stated)	2008	2007	2006
Cash flows provided (used) by operations before changes in non-cash working capital	$ 110.8	$ (51.0)	$ 134.8
Changes in non-cash working capital	(35.1)	48.3	(7.6)
Cash flows provided (used) by			
Operations	75.7	(2.7)	127.2
Investing activities	(202.9)	(83.7)	(85.8)
Financing activities	132.2	50.9	(5.9)
Capital spending	41.9	85.8	93.2
Amortization	165.8	176.4	183.7
Impairment	151.0	–	23.4
Capital spending as % of amortization	25%	49%	51%
Total debt to total capitalization [1, 2]	52%	44%	46%
Net debt to net capitalization [3, 4]	52%	44%	45%
Net debt to LTM EBITDA before specific items [3, 5, 6]	5.0	6.7	3.9
EBITDA before specific items to interest [5]	2.5	1.6	2.9

1 Total debt comprises long-term debt, including current portion.

2 Total capitalization comprises total debt and shareholders' equity.

3 Net debt comprises total debt, less cash on hand.

4 Net capitalization comprises net debt and shareholders' equity.

5 EBITDA before specific items is a non-GAAP measure. Refer to Section 10, "Non-GAAP measures" for further details.

6 LTM = last twelve months.

Selected quarterly financial information

(In millions of dollars, except where otherwise stated)	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Total	2007 Q4	2007 Q3	2007 Q2	2007 Q1
Cash flows provided (used) by operations before changes in non-cash working capital	$110.8	$ 53.3	$ 50.8	$ 2.2	$ 4.5	$ (51.0)	$ 1.4	$ (17.8)	$ (27.4)	$ (7.2)
Changes in non-cash working capital	(35.1)	4.3	(46.4)	26.3	(19.3)	48.3	32.1	(16.1)	24.1	8.2
Cash flows provided (used) by										
Operations	75.7	57.6	4.4	28.5	(14.8)	(2.7)	33.5	(33.9)	(3.3)	1.0
Investing activities	(202.9)	(5.9)	(12.6)	(174.0)	(10.4)	(83.7)	(17.8)	(23.7)	(22.2)	(20.0)
Financing activities	132.2	(52.9)	14.4	145.5	25.2	50.9	(15.7)	57.6	9.0	–
Capital spending	41.9	13.5	12.1	10.8	5.5	85.8	17.5	25.0	23.0	20.3
Amortization	165.8	38.7	39.1	46.3	41.7	176.4	42.8	44.0	44.8	44.8
Impairment	151.0	14.5	–	136.5	–	–	–	–	–	–
Capital spending as % of amortization	25%	35%	31%	23%	13%	49%	41%	57%	51%	45%
Total debt to total capitalization [1, 2]	52%	52%	50%	48%	47%	44%	44%	45%	44%	46%
Net debt to net capitalization [3, 4]	52%	52%	49%	48%	47%	44%	44%	45%	44%	46%
Net debt to LTM EBITDA before specific items [3, 5, 6]	5.0	5.0	5.9	6.9	7.6	6.7	6.7	5.9	4.9	4.2
EBITDA before specific items to interest [5]	2.5	3.4	3.4	1.6	1.6	1.6	1.9	2.0	0.9	1.8

1 Total debt comprises long-term debt, including current portion.
2 Total capitalization comprises total debt and shareholders' equity.
3 Net debt comprises total debt, less cash on hand.
4 Net capitalization comprises net debt and shareholders' equity.
5 EBITDA before specific items is a non-GAAP measure. Refer to Section 10, "Non-GAAP measures" for further details.
6 LTM = last twelve months.

The Company's principal cash requirements are for interest payments on its debt and for capital expenditures and working capital fluctuations. Cash flows are funded through operations and, where necessary, through the Company's ABL Facility. If necessary, liquidity requirements may be funded through the issuance of debt, equity or both. Access to current and alternative sources of financing at competitive cost is dependent upon the Company's credit ratings and capital market conditions. The Company believes that the cash flow from operations and the ABL Facility will be sufficient to meet its anticipated capital expenditures and debt service obligations in the near and intermediate term.

Operating activities

Cash provided by operating activities in 2008 was $75.7 million compared to cash used of $2.7 million in the previous year. The increase of $78.4 million from the previous year is primarily related to the $132.4 million increase in EBITDA in 2008. This was partially offset by higher working capital requirements in 2008 of $35.1 million compared to lower working capital requirements of $48.3 million in 2007.

Investing activities

Cash used for investing activities in 2008 was $202.9 million compared to $83.7 million in the previous year. This year-over-year change was largely driven by total costs of $169.8 million for the acquisition of the Snowflake mill offset by $43.9 million in lower capital spending in 2008.

Capital spending for 2008 was $41.9 million, primarily for maintenance of business. The major capital investment during the year was $5.5 million related to the TMP upgrade project at Port Alberni.

Financing activities

Cash provided by financing activities in 2008 was $132.2 million, compared to cash provided of $50.9 million in the previous year. Cash provided in 2008 primarily related to the $121.1 million in net proceeds from the equity rights offering used to finance the Snowflake acquisition.

Capital resources

The Company's capital resources at December 31, 2008 included the amount available under the ABL Facility. The ABL Facility, together with operating cash flows, is expected to enable the Company to meet its minimum payments.

The following table presents the aggregate amount of future cash outflows for contractual obligations as of December 31, 2008, excluding amounts due for interest on outstanding indebtedness:

Payments due by period

(In millions of dollars)	2009	2010	2011	2012	2013	Thereafter
Total debt	$ 76.0[1]	$ 1.0	$ 490.9	$ 4.0	$ 64.0	$ 327.0
Operating leases	10.3	9.0	8.4	6.1	5.7	28.0
Other commitments	1.9	1.9	1.9	0.6	–	–
Total	$ 88.2	$ 11.9	$ 501.2	$ 10.7	$ 69.7	$ 355.0

1 Includes $74.9 million of debt owned by Powell River Energy Inc. ("PREI"). The Company has a 50% interest in PREI, and consolidated 100% as PREI is a variable interest entity in which the Company is the primary beneficiaries. The Company would be likely to contribute its 50% share of the debt repayment, $37.5 million, to the extent that PREI was not able to refinance this debt prior to maturity.

Availability on the Company's ABL Facility and total liquidity at period-end is summarized in the following table:

	2008				2007			
(In millions of dollars)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Borrowing base	$ 263.3	$ 304.1	$ 319.0	$ 311.3	$ 309.0	$ 326.9	$ 350.0	$ 350.0
Letters of credit	(27.9)	(24.5)	(24.1)	(20.6)	(20.7)	(20.7)	(20.7)	(22.8)
Amount drawn, net	(60.1)	(113.5)	(93.5)	(69.4)	(47.5)	(67.1)	(9.4)	–
Available to be drawn[1]	175.3	166.1	201.4	221.3	240.8	239.1	319.9	327.2
Cash on hand	5.0	6.2	–	–	–	–	–	–
Total liquidity	$ 180.3	$ 172.3	$ 201.4	$ 221.3	$ 240.8	$ 239.1	$ 319.9	$ 327.2

1 Availability effective Q3, 2008 relates to the ABL Facility and availability for prior quarters relates to the Company's previous $350 million revolving operating facility.

As of December 31, 2008, the Company had $180.3 million of liquidity available, comprised of $5.0 million in cash and $175.3 million availability on its ABL Facility. Compared to December 31, 2007, the Company's available liquidity decreased by $60.5 million. The decrease primarily reflects the different security pledged under the two facilities, lower inventory as a result of higher curtailment in Q4, 2008 (and therefore a reduced borrowing base), and a drawdown of $48.7 million to partially finance the Snowflake acquisition. These factors were partly offset by positive cash flow from operations of $75.7 million in 2008. Availability under the ABL Facility is determined by a borrowing base, calculated primarily on balances of eligible accounts receivable and inventory balances, less certain reserves. For further details related to the Snowflake acquisition, refer to note 6, "Acquisition of Snowflake Recycle Newsprint Mill", of the Company's consolidated financial statements for the year ended December 31, 2008.

Debt

Total debt outstanding as at December 31, 2008 was $958.7 million. The Company's net-debt to net-capitalization ratio as at December 31, 2008, was 52% or 8% higher than December 31, 2007. This is due primarily to the impact of the $111.0 million in after-tax impairment charges taken in 2008, other net losses in the period, and the impact of the U.S. dollar to Canadian dollar exchange rate on the translation of U.S. dollar denominated debt into Canadian dollars. These factors were offset to some extent by the raising of $121.1 million of net proceeds through the equity rights offering in April 2008 and lower borrowings on the Company's credit facility.

The Company has reclassified non-recourse debt of $74.9 million, relating to Powell River Energy Inc. ("PREI"), to current liabilities on its balance sheet as at December 31, 2008. It is anticipated that PREI will refinance this debt prior to its maturity in July 2009. The Company has a 50% interest in PREI and consolidates 100% of it as PREI is a variable interest entity ("VIE") in which the Company is the primary beneficiary.

The following table illustrates the changes in the Company's long-term debt for the year ended December 31, 2008:

Issue (In millions of dollars)	January 1, 2008	Net increase (decrease)	Foreign exchange	December 31, 2008
Recourse				
Senior notes, 8.625% due June 2011 (US$400.0 million)	$ 388.9	$ 1.6	$ 94.6	$ 485.1
Senior notes, 7.375% due March 2014 (US$250.0 million)	246.6	1.2	59.1	306.9
Revolving asset based loan facility of up to $330.0 million due August 2013 with interest based on Canadian Prime/BA rates or U.S. Base/LIBOR rates	–	60.1	–	60.1
Revolving loan facility of up to $350.0 million due July 2009 with interest based on Canadian Prime/BA rates or U.S. Base/LIBOR rates	47.1	(47.1)	–	–
Capital lease obligation	8.6	3.6	–	12.2
Non-recourse (PREI)				
First mortgage bonds, 6.387% due July 2009	74.6	0.3	–	74.9
Subordinated promissory notes	19.5	–	–	19.5
Loan payable	0.5	(0.5)	–	–
Total long-term debt	$ 785.8	$ 19.2	$ 153.7	$ 958.7
Less current portion	(1.2)	(74.6)	–	(75.8)
	$ 784.6	$ (55.4)	$ 153.7	$ 882.9

Refer to the Company's consolidated financial statements for the year ended December 31, 2008, note 18, "Long-term Debt", for details related to covenant compliance.

Credit rating

In January 2008, Dominion Bond Rating Service ("DBRS") confirmed its senior unsecured debt rating as BB and the outlook as negative.

In August 2008, Moody's and Standard & Poor's ("S&P") ratings for secured debt were withdrawn as a result of the Company's refinancing of its $350 million revolving operating facility with a new $330 million ABL Facility. The new facility is not separately rated.

In December 2008, Moody's confirmed the Company's senior unsecured debt rating as B2, the corporate family rating as B1 and the outlook as negative. It also assigned a new speculative grade liquidity ("SGL") rating of SGL-3. The SGL rating is on a scale of 1 to 4 and is based on four components: (1) internal sources, (2) external sources, (3) covenant compliance, and (4) alternate liquidity. Moody's SGL-3 liquidity rating for the Company reflects an adequate liquidity profile supported by the availability under its ABL Facility, expectations of modest cash-flow generation in the next four quarters, no significant near-term debt maturities, and expectations that financial covenant compliance will not be problematic for the next four quarters. Moody's considers Catalyst's alternative liquidity potential as not being strong due to the lack of non-core assets that can be sold to augment liquidity.

The following table highlights the Company's credit ratings and outlook with Moody's, S&P and DBRS as at December 31, 2008, 2007, and 2006:

December 31,	2008	2007	2006
Moody's			
Outlook	Negative	Negative	Stable
Corporate family rating	B1	B1	B1
Senior unsecured debt	B2	B2	B2
Senior secured credit facility	–	Ba1	Ba1
Speculative grade liquidity	SGL-3	n/a	n/a
Standard & Poor's			
Outlook	Negative	Negative	Stable
Long-term issuer credit	B	B	B+
Senior unsecured debt	B	B	B+
Senior secured debt	–	BB-	BB-
Dominion Bond Rating Service			
Outlook	Negative	Negative	Negative
Senior unsecured debt	BB	BB	BB

Financial instruments

The new recommendations of the Canadian Institute of Chartered Accountants for financial instrument disclosures (Handbook section 3862) effective for the Company's 2008 fiscal year result in incremental disclosures relative to those made previously. The emphasis is on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the balance sheet date, and on how an entity manages those risks.

Financial instruments of the Company consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt. Financial instruments of the Company also include derivatives which the Company uses to reduce its exposure to currency and price risk associated with its revenues, energy costs and long-term debt. The Company is exposed to risk from its financial instruments, specifically credit risk, market risk (including currency, price and interest risk) and liquidity risk. The Board of directors and the Audit Committee have approved a policy to manage the risks from the use of derivatives which provides objectives for, and limits on their use. Management policies identify and analyze the risks, establish appropriate controls, place responsibilities and limits and provide for regular monitoring and reporting requirements. For further details regarding specific risks, refer to note 24, "Financial Instruments", of the Company's consolidated financial statements for the year ended December 31, 2008.

In accordance with its financial risk-management program, the Company manages its exposure to risks through the use of financial instruments with counterparties that are of strong credit quality, normally major financial institutions. The Company does not enter into financial instruments for speculative purposes.

Revenue risk management instruments

In respect of revenues, the Company uses foreign currency options and forward contracts to partially hedge trade receivables and anticipated future sales denominated in foreign currencies. At December 31, 2008, the Company had foreign currency options and forward contracts with a notional principal of US$570 million with major financial institutions. Changes in the fair values of derivatives that qualify and are designated as cash-flow hedges are deferred and recorded as a component of "Accumulated other comprehensive income" ("AOCI") until the underlying transaction is recorded in earnings. When the hedged item affects earnings, the gain or loss is reclassified from "AOCI" to "Sales". Any ineffective portion of a hedging derivative's change in fair value and the portion that is excluded from the assessment of hedge effectiveness is recognized immediately in "Sales". At December 31, 2008, instruments having a notional principal of US$425 million are designated as hedging instruments. At year-end exchange rates, these instruments are reported at their fair value, which was negative $26.9 million at the end of 2008.

At December 31, 2008, commodity swap agreements are outstanding to fix the sales price of 3,500 tonnes of NBSK within the next three months and 1,500 tons of white top linerboard within the next six months. In addition, a commodity swap agreement to fix the sales price of newsprint and purchase price of ONP within the next eleven months is outstanding for 11,000 tonnes. These contracts are not designated as hedging instruments for accounting purposes. At year-end exchange rates, these instruments are reported at their fair value, which was $0.6 million at December 31, 2008.

Cost risk management instruments

The Company's policy allows for hedges of old newsprint to be placed on anticipated purchases. As well, hedges are placed on anticipated purchases at 10% to 70% of the net exposure for oil and natural gas. These contracts are not designated as hedging instruments for accounting purposes and are reported at their fair value. Settlements and changes in fair value are recognized in "Cost of sales". At December 31, 2008, the following commodity swap agreements were outstanding and the following fair values applied:

(i) Agreement to fix the purchase price of 40,000 tonnes of ONP within the next ten months – fair value as at December 31, 2008 was negative $0.9 million.

(ii) Agreements in place for approximately 23% of natural gas usage for the next 12 month period – fair value as at December 31, 2008 was negative $0.8 million.

There are no hedges in place that extend beyond twelve months. The Company had no oil contracts and options outstanding at December 31, 2008.

Long-term debt risk management instruments

In respect of long-term debt, the Company is party to US$190 million at December 31, 2008, in forward foreign exchange contracts and options to acquire U.S. dollars over a six-year period. These instruments are not designated as hedging instruments for accounting purposes, and are included in "Other assets" on the balance sheet at their fair value. Settlements and changes in fair value are recognized in earnings as "Foreign exchange gain (loss) on long-term debt". At year-end exchange rates, these instruments are reported at their fair value, which was $34.2 million at December 31, 2008.

Interest rate swaps

The Company's policy is to keep the majority of its term debt on a fixed-rate basis, but allow for the placing of some fixed-to-floating swaps at rates considered acceptable and attractive. The effective portion of changes in the fair value of the derivatives is netted in "Long-term debt" and the ineffective portion is recognized in "Interest expense, net". The Company had no fixed-to-floating interest rate swaps outstanding at December 31, 2008. During 2008, the Company unwound its fixed-to-floating interest rate swap contracts for notional US$80 million and proceeds of $7.6 million.

6. Related party transactions

Effective October 23, 2006, Third Avenue Management LLC ("TAM") became a significant shareholder together with its subsidiaries and affiliates. In 2008, TAM acquired an additional 59,856,422 common shares in connection with the rights offering related to the acquisition of Snowflake.

Directors and employees

The Company undertakes certain transactions with companies affiliated with its directors. These transactions are in the normal course of business and are on the same terms as those accorded to third parties. During 2008, the Company paid aggregate fees of approximately $10.0 million primarily for obligations under a building lease, for services related to trucking chips and sawdust, and other consulting services to companies affiliated with directors of the Company.

7. Contingent liability

The Company is party to a 20-year Energy Services Agreement with Island Cogeneration No. 2 Inc. ("ICP"), the owner of a cogeneration facility at the Company's Elk Falls mill site. The agreement has a minimum take-or-pay obligation in respect of steam, subject to terms, which obligation became operative in 2001. Due to the unavailability of sawdust fibre from the Company's traditional sources of supply in British Columbia, which led to the closure of the Elk Falls pulp and white top linerboard operation in November 2008, the Company is currently unable to take steam from the ICP facility. Accordingly, the Company declared force majeure by notice to ICP effective November 30, 2008. ICP has disputed the force majeure declaration (which applied to the period following the closure of the pulp mill as well as prior periods in the year during which sawdust fibre was unavailable) and has filed an arbitration notice indicating its intention to arbitrate the issue. The arbitration schedule is not yet known, however the arbitration hearing may commence at some point in the latter part of 2009. Under the agreement, the Company has certain obligations to attempt to counter its inability to take the steam and it is exploring possible alternatives in this regard. The proceedings are in their early stages and the Company has not recorded a liability for this contingency since the likelihood and amount of any potential liability cannot be reasonably estimated. Should the

ultimate resolution differ from the Company's assessment, a material adjustment to the Company's financial position and the results of its operations could result. The Company expects in any event to incur significant legal fees in connection with this matter. As at December 31, 2008, the Company estimates that the cost of the steam that it has been unable to take due to the force majeure event was approximately $4 million. The Company estimates that the monthly cost of the steam that it is unable to take due to the force majeure event is approximately $1.0 million to $1.5 million.

8. Off-balance sheet arrangements

Guarantees

Business dispositions

The Company sold a portion of its operations in June 2001. In this regard, the Company provided a 10-year environmental indemnity with a maximum liability to the Company of $12.5 million. This liability has subsequently been reduced by expenditures related to certain decommissioning projects. The Company provided a tax indemnity, which continues while the relevant tax years of the indemnified parties remain open to audit.

Loans

The Company entered into a building lease agreement in 2001, in respect of which it will continue to make the prescribed lease payments directly to the financial institution holding the mortgage on the building in the event the lessor is no longer able to meet its contractual obligations. At December 31, 2008, the value of the mortgage was $9.6 million. This agreement does not increase the Company's liability beyond the obligations for the building lease.

Recycling plant acquisition

In connection with the acquisition of the Company's paper recycling operation in December 2003, the Company provided indemnities with respect to representations and warranties related to general corporate matters and to the shares that were issued to the vendors. Liability under these indemnities expired in November 2008, except that the indemnity related to title to the shares does not expire. The Company does not expect any significant claims with respect to these indemnities. The Company also provided indemnities with respect to general environmental matters under its lease of the land and buildings. The Company has agreed to indemnify the landlord for all costs, claims and damages related to any release by the Company of any hazardous substances on the property or the breach by the Company of its environmental covenants under the lease or any environmental laws. This indemnity is indefinite and survives after the lease is terminated. The Company is not liable for pre-existing environmental conditions.

9. Summary of quarterly results

The following table highlights selected financial information for the eight consecutive quarters ending December 31, 2008:

(In millions of dollars, except per share amounts)	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	$ 492.2	$ 504.8	$ 452.9	$ 399.5	$ 381.0	$ 413.7	$ 441.8	$ 478.1
EBITDA [1]	64.7	53.1	29.5	12.1	15.1	(0.3)	(1.9)	14.1
Net earnings (loss)	(48.5)	(10.9)	(124.3)	(37.4)	12.4	(18.6)	0.2	(25.6)
Net earnings (loss) per share – basic and diluted	$ (0.13)	$ (0.03)	$ (0.34)	$ (0.17)	$ 0.06	$ (0.09)	$ –	$ (0.12)

1 EBITDA is a non-GAAP measure. Refer to Section 10 "Non-GAAP measures" for further details.

In Q1, 2008, the net loss increased by $49.8 million, or $0.23 per common share, compared to Q4, 2007, due largely to a $21.5 million increase in the after-tax foreign exchange loss on translation of U.S. dollar denominated long-term debt, and lower income tax recoveries of $26.4 million in Q1, 2008.

In Q2, 2008, the $86.9 million, or $0.17 per common share, increase in net loss, compared to Q1, 2008, was related primarily to the after-tax impairment charge of $101.0 million related to the Company's Elk Falls pulp and white top linerboard assets, offset by lower after-tax foreign exchange loss on translation of U.S. dollar denominated long-term debt of $13.1 million.

In Q3, 2008, the $113.4 million, or $0.31 per common share, improvement in net loss, compared to Q2, 2008, was due largely to the after-tax improvement in operating earnings, which was a result of higher EBITDA of $23.6 million and the Q2 after-tax impairment charge of $101.0 million on Elk Falls pulp assets.

In Q4, 2008, the $37.6 million, or $0.10 per common share, increase in net loss, compared to Q3, 2008, was due primarily to an after-tax foreign exchange loss on translation of long-term debt of $45.2 million compared to an after-tax loss of $9.1 million in Q3, 2008.

The following table reconciles the average spot exchange rate to the Company's effective rate for the eight consecutive quarters ending December 31, 2008:

US$/CDN$ foreign exchange	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average spot rate	0.825	0.961	0.990	0.996	1.019	0.957	0.911	0.854
Revaluation of U.S. dollar receivables	(0.078)	(0.016)	0.005	(0.022)	0.008	0.040	0.051	0.006
Impact of hedging	0.112	0.017	(0.010)	(0.003)	(0.059)	(0.053)	(0.035)	(0.002)
Other	0.009	0.009	0.004	(0.004)	0.002	(0.009)	(0.011)	0.002
Average effective rate	0.868	0.971	0.989	0.967	0.970	0.935	0.916	0.860

10. Non-GAAP measures

EBITDA (earnings before interest, taxes, depreciation and amortization, impairment and before other non-operating income and expenses) as defined equates to operating earnings (loss) plus amortization and impairment. As Canadian GAAP does not define a method of calculating EBITDA, the measure as calculated by the Company might not be comparable to similarly titled measures reported by other entities. The Company focuses on EBITDA, as the Company believes this measure enables comparison of its results between periods without regard to debt service, income taxes, and capital expenditure requirements. As such, the Company believes it would be useful for investors and other users to be aware of this measure so that they can better assess the Company's operating performance. EBITDA should not be considered by an investor as an alternative to net earnings, an indicator of the financial performance of the Company, or an alternative to cash flows as a measure of liquidity.

The Company incurred some specific items in 2008 and 2007 that adversely or positively affected its average delivered cash costs per tonne, EBITDA, operating earnings (loss), and net earnings (loss), making the comparison of results difficult from period to period. The Company believes it is useful for readers to be aware of these items and to have an indication of performance and comparative trends excluding these specific items. Specific items include foreign exchange gain or loss on long-term debt, asset impairments, restructuring and change-of-control costs, financing-related fees, income tax adjustments, the impact of significant labour disruptions, and other significant items of an unusual or non-recurring nature. The Company believes this is useful supplemental information; however, the Company's measures excluding specific items have no standardized meaning under Canadian GAAP and might not be comparable to similarly titled measures reported by other entities. Readers should be cautioned that average delivered cash costs per tonne before specific items, EBITDA before specific items, EBITDA margin before specific items, net earnings (loss) before specific items and net earnings (loss) per share before specific items should not be confused with or used as an alternative to measures prescribed by Canadian GAAP.

The Company has reported free cash flow because management believes it is useful for investors and other users to be aware of this measure so they can better assess the Company's operating performance. Free cash flow excludes working capital changes and certain other sources and uses of cash, which are disclosed in the consolidated statements of cash flows. As Canadian GAAP does not define a method of calculating free cash flow, the measure as calculated by the Company might not be comparable to similarly titled measures reported by other entities and should not be considered an alternative to the consolidated statements of cash flows. While the closest GAAP measure is cash provided by operating activities less cash used by investing activities, free cash flow generated by operations is cash available after capital expenditures, interest and income tax payments, and funding of employee future benefits, but before acquisitions, proceeds from rights offering and divested assets and changes in working capital items.

Refer to the tables below for a reconciliation of net earnings (loss) to EBITDA and EBITDA before specific items, the impact of specific items by segment, net earnings (loss) as reported to net earnings (loss) before specific items, and reconciliation of free cash flow with cash provided by operating activities less cash used by investing activities and management's calculation of free cash flow.

Reconciliation of net earnings (loss) to EBITDA and EBITDA before specific items

(In millions of dollars)	2008	2007	2006
Net earnings (loss)	$ (221.1)	$ (31.6)	$ (15.9)
Amortization	165.8	176.4	183.7
Impairment	151.0	–	23.4
Foreign exchange (gain) loss on long-term debt	82.2	(103.9)	0.3
Other (income) expense, net	(2.5)	15.3	(1.8)
Interest expense, net	75.0	70.7	73.8
Income tax recovery	(91.8)	(100.0)	(54.0)
Non-controlling interest	0.8	0.1	1.5
EBITDA	$ 159.4	$ 27.0	$ 211.0
Specific items:			
Restructuring costs	30.1	55.3	–
Change-of-control costs	–	9.4	–
Impact of USW strike	–	25.0	–
Total specific items	30.1	89.7	–
EBITDA before specific items	$ 189.5	$ 116.7	$ 211.0

Reconciliation of net earnings (loss) to EBITDA and EBITDA before specific items by quarter

	2008					2007				
(In millions of dollars)	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Net earnings (loss)	$ (221.1)	$ (48.5)	$ (10.9)	$(124.3)	$ (37.4)	$ (31.6)	$ 12.4	$ (18.6)	$ 0.2	$ (25.6)
Amortization	165.8	38.7	39.1	46.3	41.7	176.4	42.8	44.0	44.8	44.8
Impairment	151.0	14.5	–	136.5	–	–	–	–	–	–
Foreign exchange (gain) loss on long-term debt	82.2	53.5	10.8	1.2	16.7	(103.9)	(8.9)	(33.9)	(53.2)	(7.9)
Other (income) expense, net	(2.5)	–	(0.2)	(2.1)	(0.2)	15.3	6.6	7.2	1.8	(0.3)
Interest expense, net	75.0	19.6	19.2	19.4	16.8	70.7	15.4	18.4	18.4	18.5
Income tax recovery	(91.8)	(13.7)	(4.8)	(47.3)	(26.0)	(100.0)	(53.2)	(17.4)	(14.2)	(15.2)
Non-controlling interest	0.8	0.6	(0.1)	(0.2)	0.5	0.1	–	–	0.3	(0.2)
EBITDA	159.4	64.7	53.1	29.5	12.1	27.0	15.1	(0.3)	(1.9)	14.1
Specific items:										
Restructuring costs	30.1	1.2	13.1	1.2	14.6	55.3	1.4	24.1	19.0	10.8
Change-of-control costs	–	–	–	–	–	9.4	0.6	0.3	0.3	8.2
Impact of USW strike	–	–	–	–	–	25.0	11.7	13.3	–	–
Total specific items	30.1	1.2	13.1	1.2	14.6	89.7	13.7	37.7	19.3	19.0
EBITDA before specific items	$ 189.5	$ 65.9	$ 66.2	$ 30.7	$ 26.7	$ 116.7	$ 28.8	$ 37.4	$ 17.4	$ 33.1

Impact of specific items by segment in 2007 and 2008 by quarter

(In millions of dollars, except where otherwise stated)	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Total	2007 Q4	2007 Q3	2007 Q2	2007 Q1
Specific items										
Sales	$ –	$ –	$ –	$ –	$ –	$ (80.7)	$ (55.0)	$ (25.7)	$ –	$ –
Cost of sales	–	–	–	–	–	55.7	43.3	12.4	–	–
Impact of the USW strike [1]	–	–	–	–	–	(25.0)	(11.7)	(13.3)	–	–
Restructuring costs	(30.1)	(1.2)	(13.1)	(1.2)	(14.6)	(55.3)	(1.4)	(24.1)	(19.0)	(10.8)
Change-of-control costs	–	–	–	–	–	(9.4)	(0.6)	(0.3)	(0.3)	(8.2)
EBITDA impact of specific items	$ (30.1)	$ (1.2)	$ (13.1)	$ (1.2)	$ (14.6)	$ (89.7)	$ (13.7)	$ (37.7)	$ (19.3)	$ (19.0)
Segment EBITDA favourable (unfavourable) impact of specific items										
Specialty printing papers	$ (10.6)	$ 1.0	$ (0.1)	$ (0.5)	$ (11.0)	$ (47.2)	$ (3.6)	$ (17.6)	$ (12.9)	$ (13.1)
Newsprint	(4.1)	0.1	(0.1)	(0.5)	(3.6)	(19.3)	(3.9)	(7.7)	(4.0)	(3.7)
Pulp	(15.4)	(2.3)	(12.9)	(0.2)	–	(23.2)	(6.2)	(12.4)	(2.4)	(2.2)
Total	$ (30.1)	$ (1.2)	$ (13.1)	$ (1.2)	$ (14.6)	$ (89.7)	$ (13.7)	$ (37.7)	$ (19.3)	$ (19.0)
Segment EBITDA favourable (unfavourable) impact of restructuring and change-of-control costs only										
Specialty printing papers	$ (10.6)	$ 1.0	$ (0.1)	$ (0.5)	$ (11.0)	$ (42.2)	$ (1.8)	$ (14.4)	$ (12.9)	$ (13.1)
Newsprint	(4.1)	0.1	(0.1)	(0.5)	(3.6)	(12.9)	(0.4)	(4.8)	(4.0)	(3.7)
Pulp	(15.4)	(2.3)	(12.9)	(0.2)	–	(9.6)	0.2	(5.2)	(2.4)	(2.2)
Total	$ (30.1)	$ (1.2)	$ (13.1)	$ (1.2)	$ (14.6)	$ (64.7)	$ (2.0)	$ (24.4)	$ (19.3)	$ (19.0)
Curtailed production due to USW strike (000 tonnes)										
Specialty printing papers	–	–	–	–	–	7.2	4.0	3.2	–	–
Newsprint	–	–	–	–	–	98.9	65.8	33.1	–	–
Pulp	–	–	–	–	–	54.7	26.8	27.9	–	–
Total	–	–	–	–	–	160.8	96.6	64.2	–	–

1 The impact of the USW strike is based on management estimates.

Reconciliation of net earnings (loss) as reported to net earnings (loss) before specific items

(In millions of dollars and after-tax, except where otherwise stated)	2008	2007	2006
Net earnings (loss) as reported	$ (221.1)	$ (31.6)	$ (15.9)
Specific items (after taxes):			
Foreign exchange loss (gain) on long-term debt	69.4	(86.2)	0.2
Impairment and loss on disposal	111.0	4.9	15.4
Restructuring and change-of-control costs	20.8	42.7	–
USW strike impact	–	16.5	–
Third Avenue Management tender offer	–	–	2.2
Financing related fees	–	0.8	–
Termination fee on closure of corrugating machine	(1.2)	–	–
Income tax adjustments	(6.9)	(36.4)	(26.9)
Net earnings (loss) before specific items	$ (28.0)	$ (89.3)	$ (25.0)
Net earnings (loss) per share in dollars:			
As reported	$ (0.66)	$ (0.15)	$ (0.07)
Before specific items	$ (0.08)	$ (0.42)	$ (0.12)

Reconciliation of net earnings (loss) as reported to net earnings (loss) before specific items by quarter

(In millions of dollars and after-tax, except where otherwise stated)	2008 Total	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Total	2007 Q4	2007 Q3	2007 Q2	2007 Q1
Net earnings (loss) as reported	$ (221.1)	$ (48.5)	$ (10.9)	$(124.3)	$ (37.4)	$ (31.6)	$ 12.4	$ (18.6)	$ 0.2	$ (25.6)
Specific items (after taxes):										
Foreign exchange loss (gain) on long-term debt	69.4	45.2	9.1	1.0	14.1	(86.2)	(7.4)	(28.1)	(44.1)	(6.6)
Impairment and loss on disposal	111.0	10.0	–	101.0	–	4.9	–	4.9	–	–
Restructuring and change-of-control costs	20.8	0.9	9.0	0.8	10.1	42.7	1.4	16.1	12.7	12.5
USW strike impact	–	–	–	–	–	16.5	7.7	8.8	–	–
Financing related fees	–	–	–	–	–	0.8	–	–	0.8	–
Termination fee on closure of corrugating machine	(1.2)	–	–	(1.2)	–	–	–	–	–	–
Income tax adjustments	(6.9)	1.7	–	–	(8.6)	(36.4)	(35.0)	–	(1.4)	–
Net earnings (loss) before specific items	$ (28.0)	$ 9.3	$ 7.2	$ (22.7)	$ (21.8)	$ (89.3)	$ (20.9)	$ (16.9)	$ (31.8)	$ (19.7)
Net earnings (loss) per share in dollars:										
As reported	$ (0.66)	$ (0.13)	$ (0.03)	$ (0.34)	$ (0.17)	$ (0.15)	$ 0.06	$ (0.09)	$ –	$ (0.12)
Before specific items	$ (0.08)	$ 0.02	$ 0.02	$ (0.06)	$ (0.10)	$ (0.42)	$ (0.10)	$ (0.08)	$ (0.15)	$ (0.09)

The following reconciles free cash flow with cash provided by operating activities less cash used by investing activities:

Years ended December 31, (In millions of dollars)	2008	2007	2006
Cash provided (used) by operating activities	$ 75.7	$ (2.7)	$ 127.2
Cash used by investing activities	(202.9)	(83.7)	(85.8)
Proceeds from the sale of property, plant and equipment and other assets	(2.2)	(6.5)	(3.5)
Snowflake acquisition	169.8	–	–
Other investing activities	(6.6)	4.4	(3.9)
Non-cash working capital changes except changes in taxes and interest	37.8	(49.7)	9.0
Other	(26.4)	17.8	7.0
Free cash flow	$ 45.2	$ (120.4)	$ 50.0

(In millions of dollars)	2008 Total	Q4	Q3	Q2	Q1	2007 Total	Q4	Q3	Q2	Q1
Cash provided (used) by operating activities	$ 75.7	$ 57.6	$ 4.4	$ 28.5	$ (14.8)	$ (2.7)	$ 33.5	$ (33.9)	$ (3.3)	$ 1.0
Cash used by investing activities	(202.9)	(5.9)	(12.6)	(174.0)	(10.4)	(83.7)	(17.8)	(23.7)	(22.2)	(20.0)
Proceeds from the sale of property, plant and equipment and other assets	(2.2)	0.1	(2.3)	0.1	(0.1)	(6.5)	(2.0)	(3.6)	(0.4)	(0.5)
Snowflake acquisition	169.8	–	0.3	169.5	–	–	–	–	–	–
Other investing activities	(6.6)	(7.7)	2.5	(6.4)	5.0	4.4	2.3	2.3	(0.4)	0.2
Non-cash working capital changes except change in taxes and interest	37.8	(6.6)	51.3	(29.7)	22.8	(49.7)	(35.8)	20.2	(29.6)	(4.5)
Other	(26.4)	(11.3)	(21.0)	13.2	(7.3)	17.8	1.8	(0.1)	15.5	0.6
Free cash flow	$ 45.2	$ 26.2	$ 22.6	$ 1.2	$ (4.8)	$ (120.4)	$ (18.0)	$ (38.8)	$ (40.4)	$ (23.2)

The following shows management's calculation of free cash flow:

Years ended December 31, (In millions of dollars)	2008	2007	2006
EBITDA	$ 159.4	$ 27.0	$ 211.0
Interest paid, net	(74.4)	(67.8)	(71.5)
Capital expenditures	(41.9)	(85.8)	(93.2)
Income taxes paid	(0.8)	(0.5)	(2.7)
Employee future benefits, net of funding	2.9	6.7	6.4
Free cash flow	$ 45.2	$ (120.4)	$ 50.0

(In millions of dollars)	2008 Total	Q4	Q3	Q2	Q1	2007 Total	Q4	Q3	Q2	Q1
EBITDA	$ 159.4	$ 64.7	$ 53.1	$ 29.5	$ 12.1	$ 27.0	$ 15.1	$ (0.3)	$ (1.9)	$ 14.1
Interest paid, net	(74.4)	(21.1)	(18.8)	(17.1)	(17.4)	(67.8)	(15.1)	(17.9)	(17.3)	(17.5)
Capital expenditures	(41.9)	(13.5)	(12.1)	(10.8)	(5.5)	(85.8)	(17.5)	(25.0)	(23.0)	(20.3)
Income taxes received (paid)	(0.8)	(0.7)	0.4	0.3	(0.8)	(0.5)	0.1	0.2	(0.2)	(0.6)
Employee future benefits, net of funding	2.9	(3.2)	–	(0.7)	6.8	6.7	(0.6)	4.2	2.0	1.1
Free cash flow	$ 45.2	$ 26.2	$ 22.6	$ 1.2	$ (4.8)	$ (120.4)	$ (18.0)	$ (38.8)	$ (40.4)	$ (23.2)

11. Critical accounting policies and estimates

The preparation of financial statements in conformity with Canadian GAAP requires companies to establish accounting policies and to make estimates that affect both the amount and timing of recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Note 2, "Summary of Significant Accounting Policies", to the December 31, 2008 consolidated financial statements includes a summary of the significant accounting policies used in their preparation. While all of the significant accounting policies are important to the consolidated financial statements, some of these policies may be viewed as involving a high degree of judgement. On an ongoing basis using currently available information, management reviews its estimates, including those related to environmental and legal liabilities, impairment of long-lived assets, pension and post-retirement benefits, provision for bad and doubtful accounts, and income taxes. Actual results could differ from these estimates.

The following accounting policies require management's most difficult, subjective and complex judgements, and are subject to a fair degree of measurement uncertainty.

Environmental and legal liabilities

Environmental and legal liabilities are recorded when it is considered probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Liabilities for environmental matters require evaluations of applicable environmental regulations and estimates of remediation alternatives and the costs thereof. Provisions for liabilities relating to legal actions and claims require judgments regarding projected outcomes and the range of loss, based on such factors as historical experience and recommendations of legal counsel.

As at December 31, 2008, the Company had a provision of $11.0 million for environmental, remedial and other obligations. The Company expects capital expenditures relating to known environmental matters, including compliance issues and the assessment and remediation of the environmental condition of the Company's properties, will total approximately $1.7 million in 2009.

At December 31, 2008, the Company has a contingent liability related to an Energy Services agreement between the Company and Island Cogeneration No. 2 Inc., the owner of a cogeneration facility at the Company's Elk Falls mill site. Refer to Section 7, "Contingent liability" for details regarding a dispute related to the Company's declaration of force majeure in connection with its obligation to purchase a minimum amount of steam from the cogeneration facility.

Impairment of long-lived assets

The Company reviews long-lived assets, primarily plant and equipment, for impairment when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The Company tests for impairment using a two-step methodology:

(i) Determine whether the projected undiscounted future cash flows from operations exceed the net carrying amount of the assets as of the assessment date; and

(ii) If assets are determined to be impaired in step (i), then such impaired assets are written down to their fair value, determined principally by using discounted future cash flows expected from their use and eventual disposition.

Estimates of future cash flows and fair value require judgements, assumptions and estimates and may change over time. Due to the variables associated with judgments and assumptions used in these tests, the precision and accuracy of estimates of impairment charges are subject to significant uncertainties and may change significantly as additional information becomes known. The carrying value of long-lived assets represented approximately 76% of total assets as at December 31, 2008. If future developments were to differ adversely from management's best estimate of key assumptions and associated cash flows, the Company could potentially experience future material impairment charges.

In Q4, 2008, as a result of the decline in North American consumption of newsprint and printing and writing paper grades, the Company conducted step (i) impairment tests on its paper and pulp assets. Estimates of future cash flows used to test the recoverability of long-lived assets included key assumptions related to foreign exchange rates, forecast prices, estimated useful life of the long-lived assets, production levels, production costs, market supply and demand, inflation, weighted average cost of capital, and capital spending. The assumptions are derived from information generated internally, independent industry research firms, and other external published reports and forecasts. The useful life of the Company's assets was estimated at 20 years for paper assets and 10 years for pulp assets. Product sales prices and foreign exchange assumption for 2009 of CDN$1.00 = US$0.90 were based on management's best estimates incorporating independent market information as well as analysis of historical data, trends and cycles. Product sales prices and foreign exchange assumptions for years 2010 to 2013 were based on forecasts prepared by RISI, an independent external firm. The RISI foreign exchange assumption was CDN$1.00 = US$0.85 in 2010 declining to CDN$1.00 = US$0.78 by 2013. Product sales prices and foreign exchange rate assumptions for 2014 and subsequent years were estimated by management based on long-term trend pricing for product sales and a long-term expected foreign exchange rate of CDN$1.00 = US$0.88. In addition to the impairment test conducted using RISI and long-term trend assumptions for the years 2010 and beyond, the Company also prepared a second analysis applying significant discounts to the RISI and trend assumptions. In this second analysis, the foreign exchange assumption was CDN$1.00 = US$0.90 for all years and average product pricing was reduced by 7% to 18% in the years 2010 to 2012 when compared to RISI pricing assumptions. In addition, volume assumptions were reduced in each year. In this second analysis, the 5-year average results for 2008 to 2012 were then applied to each subsequent year of the useful life of the assets. The Company concluded that an impairment charge for the pulp and paper assets was not required as at December 31, 2008 as the estimated undiscounted cash flows in both cases exceeded the carrying values.

The following impairment charges were made during 2008:

- In the second quarter, the Company recorded an impairment charge of $136.4 million on assets related to its Elk Falls sawdust pulp mill and white top linerboard operation, of which $129.0 million related to property, plant and equipment and $7.4 million related to supplies and spare-parts inventory. This was a result of the severe impact on this operation of the unavailability of sawdust fibre. The Elk Falls sawdust pulp and white top linerboard operation was permanently closed in November 2008.
- As a result of a review undertaken by the Company of specific assets that are no longer in use or where the net realizable value has decreased due to the weak economy, the Company recorded an asset-impairment charge of $14.6 million in the fourth quarter.

Pension and post-retirement benefits

The Company maintains various employee future benefit plans, which include defined benefit pension and post-retirement benefit plans. The Company retains independent actuarial firms to perform actuarial valuations of the fair value of the Company's defined benefit pension and post-retirement benefit plan assets and benefit obligations, and to advise on the amounts to be recorded in the Company's financial statements. This information is determined using certain assumptions, based on historical and market data that directly impact the fair value of the assets and obligations as well as the charges disclosed in the Company's financial statements. These assumptions include:

- The discount rate which is used to estimate the actuarial present value of the various plan obligations. The Company, assisted by independent actuarial advisors, sets the discount rate assumption annually to reflect the rates available on high-quality debt instruments, with cash flows that are expected to match the timing and amount of expected benefit payments. As at December 31, 2008, a discount rate of 7.0% per year was determined by management in consultation with its independent actuarial advisors.
- The long-term return on assets used to estimate the growth in the value of invested assets available to satisfy certain obligations. The Company, with the assistance of independent actuarial firms, annually sets the expected rate of return on plan assets to reflect the current view of long-term investment returns. As at December 31, 2008, a rate of return of 7.0% per year was determined by management in consultation with its independent actuarial advisors.

- Salary increases used to estimate the impact that future compensation increases will have on pension and other post-retirement obligations. As at December 31, 2008, a rate of compensation increase of 2.5% per year was determined by management in consultation with its independent actuarial advisors.
- Health care trend rates and mortality rates used to estimate the impact that future health care costs will have on pension and post-retirement obligations. As at December 31, 2008, a health care trend rate of 7.5% per year was determined by management in consultation with its independent actuarial advisors. The health care trend rate is assumed to decline by 0.5% annually, and the ultimate health care trend rate is assumed to be 4.5%.

Actual experience can vary significantly from estimates and could materially impact the estimated cost of employee benefit plans and future cash requirements.

The following table provides a sensitivity analysis of the key weighted average economic assumptions used in measuring the accrued pension benefit obligation, and the accrued other employee future benefit and related net periodic benefit cost for 2008. This sensitivity analysis should be used with caution as it is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of each other.

	Pension benefit plans		Other benefit plans	
(In millions of dollars)	Accrued benefit obligation	Net 2008 expense	Accrued benefit obligation	Net 2008 expense
Expected rate of return on assets				
Impact of:				
1% increase	n/a	(2.7)	n/a	n/a
1% decrease	n/a	2.7	n/a	n/a
Discount rate				
Impact of:				
1% increase	(27.1)	(3.9)	(20.9)	(2.4)
1% decrease	29.4	4.5	24.4	3.1
Assumed overall health care cost trend				
Impact of:				
1% increase	n/a	n/a	26.5	6.1
1% decrease	n/a	n/a	(22.3)	(4.4)

Provision for bad debts and allowance for doubtful accounts

The Company regularly reviews the collectibility of its accounts receivable. The Company records its allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts by highlighting those that are specifically high risk and applying judgement to determine its estimate. Consideration is given to current economic conditions and specific customer circumstances to determine the amount of any bad debt expense to be recorded. Accounts receivable balances for individual customers could potentially be material at any given time. The Company manages its credit risk principally through credit policies, which include the analysis of the financial position of its customers and the regular review of their credit limits and payment terms. The Company also subscribes to credit insurance for a majority of its receivables, periodically purchases accounts-receivable puts on certain customers, and obtains bank letters of credit for some export markets and customers. The Company's estimate of the required allowance is a matter of judgement and the actual loss eventually sustained may be more or less than estimated.

The Company has experienced larger bad debt expense in 2008 with the difficult economic conditions and refinancing environment, particularly in the second half of the year. Three of the Company's larger paper customers, each representing less than 5% of total sales, filed for bankruptcy protection in Canada and/or the United States. One has emerged from this process and two continue to operate under the Canadian and/or United States bankruptcy laws, and continue to purchase from the Company under certain terms and conditions. Three of the Company's pulp customers in Europe became insolvent and have been unable to pay the balances owing to their suppliers, including the Company. For the year ended December 31, 2008, the Company recorded bad debt expense of $3.1 million (2007 – nil).

As at December 31, 2008, "Accounts receivable" comprised 9.1% of total assets. Included in this balance was a provision of $3.2 million for doubtful accounts, or 1.4% of accounts receivable (as at December 31, 2007, $2.8 million for doubtful accounts, or 1.3% of accounts receivable). The Company believes its allowance for doubtful accounts as at December 31, 2008 is adequate to provide for probable losses existing in accounts receivable.

Income taxes

The amounts recorded for future income tax assets and liabilities are based on various judgments, assumptions and estimates. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates for the years in which assets and liabilities are expected to be recovered or settled. For these years, a projection is made of taxable income and estimates made of the ultimate recovery or settlement of temporary differences. The projection of future taxable income is based on management's best estimate and may vary from actual.

The Company's future tax assets are mainly composed of temporary differences relating to employee future benefits and loss carryforwards. Future tax liabilities are mainly composed of temporary differences pertaining to property, plant and equipment. Estimating the ultimate settlement period for these temporary differences requires judgment. The reversal of these temporary differences is expected to be at future substantially enacted rates which could change due to changes in income tax laws. As a result, a change in the timing of reversal or in the income tax rate could materially affect the future tax expense recorded in the consolidated statement of earnings. A one-percentage-point change in the Company's reported effective income tax rate would have the effect of changing the income tax expense by approximately $2.6 million.

In addition, the Company records provisions for federal, provincial and foreign taxes based on the respective tax laws of the jurisdictions in which the Company operates and its judgment as to the appropriate allocation of income and deductions to those jurisdictions. Canadian, U.S. and international tax laws are subject to interpretation and the Company's judgment may be challenged by taxation authorities. In such circumstances, the final resolution of these challenges can result in settlements that differ from the Company's estimated amounts.

12. Changes in accounting policies

On January 1, 2008, the Company adopted the following new pronouncements issued by the Canadian Institute of Chartered Accountants ("CICA"):

Section 1535, Capital Disclosures

Section 1535, *Capital Disclosures*, requires entities to provide additional disclosures relating to the Company's objectives, policies, and processes for managing capital.

Section 3031, Inventories

Section 3031, *Inventories*, provides more guidance on the measurement and disclosure requirements for inventories. Significantly to the Company, the new recommendations require raw materials to be recorded at the lower of cost or net realizable value ("NRV") with NRV determined on an as-converted-to-finished-goods basis for all raw materials to be used in the production of finished goods, allow the reversals of previous write-downs to NRV when there is a subsequent increase in the value of inventories, and include more detailed guidance on the classification of spare parts between inventories and capitalized equipment. The Company has adopted this standard with a prospective application on January 1, 2008. Upon adoption, the Company recorded a write-down of $3.8 million to opening raw materials inventory and adjusted its opening balances of retained earnings by $2.6 million, net of taxes. In addition, the Company has reclassified $5.7 million of its maintenance spare parts from "Inventories" to "Property, plant and equipment".

Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation

Section 3862, *Financial Instruments – Disclosures*, and Section 3863 *Financial Instruments – Presentation* replace Section 3861 *Financial Instruments – Disclosure and Presentation*. Section 3862 requires additional disclosures, relative to those previously required, with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

Section 1400, General Standards of Financial Statement Presentation

In 2008, the CICA revised Handbook Section 1400, *General Standards of Financial Statement Presentation*. The revision to this section provides additional guidance related to management's assessment of the Company's ability to continue as a going concern. This revision is effective for fiscal years beginning on or after January 1, 2008. The standard did not have a material impact on the Company's consolidated financial statements for the year ended December 31, 2008.

13. Impact of accounting pronouncements affecting future periods

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets* which replaced existing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development*. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company does not have any goodwill and other intangible assets and as such, the new standard is not expected to have any impact on the Company's consolidated financial statements.

International financial reporting standards

In February 2008, the CICA Accounting Standards Board confirmed that the changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. This decision establishes standards for financial reporting with the aim of consistency in the global marketplace.

In June 2008, the Canadian Securities Administrators proposed that Canadian public companies which are also Securities Exchange Commission ("SEC") registrants, could retain the option to prepare their financial statements under U.S. GAAP instead of IFRS. In August 2008, the SEC agreed to publish for public comment a proposal recommending that U.S. issuers be required to adopt IFRS using a phased-in approach based on market capitalization, starting in 2014. The Company is currently considering the implications of conversion to U.S. GAAP as opposed to IFRS and expects to make a final determination during 2009.

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. With the assistance of an external party, the Company has completed an initial scoping phase which involves performing a high-level impact assessment to identify key areas that may be impacted by the transition to IFRS and the major areas where significant complexities or key decisions are required by management prior to implementation. The analysis of IFRS and comparison with currently applied accounting principles has identified a number of differences. Although the Company has not yet determined the full effects of adopting IFRS, key areas where changes in accounting policies are expected are as follows:

Property, plant and equipment

Consistent with Canadian GAAP, under IFRS, separable components of property, plant and equipment ("PP&E") are recognized initially at cost. Under International Accounting Standards ("IAS") 16, *Property, Plant and Equipment*, an entity is required to choose, for each class of PP&E, to use either the cost model (consistent with Canadian GAAP) or the revaluation model. Under the revaluation model, an item of PP&E is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated amortization and accumulated impairment losses. Increases in fair value are recorded in a revaluation surplus account in equity while decreases in fair value serve to reduce the revaluation surplus account, related to the asset, with any excess recognized in income.

For major maintenance, IFRS allows for major inspections and overhauls to be accounted as a separate component of PP&E if the component is used for over one period. This treatment is only intended for use for major expenditures that occur at regular intervals over the life of the asset as costs of routine repairs and maintenance will continue to be expensed as incurred. The major maintenance required on the Company's plant and equipment would likely qualify for treatment under this standard and would allow for additional amounts to be capitalized and amortized.

Impairments

Under Canadian GAAP for assets other than financial assets, a write-down to estimated fair value is recognized if the estimated undiscounted future cash flows from an asset or group of assets is less than their carrying value. Under IAS 36, *Impairment of Assets*, a write-down is recognized if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value in use is less than carried value. Consistent with Canadian GAAP, impairments are measured at the amount by which carried value exceeds fair value less costs to sell.

Currently Canadian GAAP requires a two-step impairment test in which the Company must first compare undiscounted cash flows to the carrying value of the assets, and only if the cash flows are below the carrying value does management need to discount the cash flows to calculate impairment. Under IFRS the impairment calculation is a one-step process in which discounted cash flows are compared to the carrying value of assets. This may lead to additional write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

IFRS also requires the reversal of any previous impairment losses where circumstances have changed such that the impairments have reduced. Canadian GAAP prohibits reversal of impairment losses. This could result in greater variability in earnings, carrying values of PP&E, and balances in shareholders' equity.

Share-based payments

The Company issues stock-based awards in the form of stock options that vest evenly over a three-year period. Under Canadian GAAP, the Company recognizes the fair value of the award, determined at the time of the grant, on a straight-line basis over the three-year vesting period. Under IFRS the fair value of each tranche of the award is considered a separate grant based on the vesting period with the fair value of each tranche determined separately and recognized as compensation expense over the term of its respective vesting period. Accordingly, this will result in a higher amount of each grant being recognized in income at a faster rate than under Canadian GAAP.

Employee benefits

IAS 19, *Employee Benefits*, requires the past-service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past-service costs expensed immediately and unvested past-service costs recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, past-service costs are generally amortized on a straight-line basis over the average remaining service period of active employees expected under the plan, unless all, or almost all, of the employees are no longer active, in which case such costs are amortized over the average life expectancy of the former employees. In addition, actuarial gains and losses are permitted under IAS 19 to be recognized directly in equity rather than through profit or loss. IFRS also provides an option to recognize all cumulative actuarial gains and losses existing at the date of transition immediately in retained earnings.

Asset retirement obligations

Under Canadian GAAP the Company would only record an asset retirement obligation ("ARO") if there was a legal requirement to incur restoration costs. Under IFRS the threshold for recognizing a liability is a legal or constructive obligation. The difference in standards may require the Company to review each of the mill's business plans to determine if there are any actions planned by management that would create a constructive obligation to record an ARO upon adoption of IFRS.

Provisions

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, requires a provision to be recognized when there is a present obligation as a result of a past transaction or event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation. Probability is based on a "more likely than not" threshold. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold. It is possible that there may be some legal, bad debt or contingent provisions which would meet the recognition criteria under IFRS that were not previously recognized under Canadian GAAP.

First-time adoption of IFRS

Adoption of IFRS requires the application of *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") which provides guidance for an entity's initial adoption of IFRS. IFRS 1 lists specific exemptions the Company may use when first adopting IFRS. The most significant exemptions to the Company are as follows:

Business combinations

For business combinations that occurred before the transition date, the Company has the choice to restate all of these business combinations to IFRS standards, restate all business combinations after a particular date, or not to restate any of the business combinations. Assets and liabilities acquired in an un-restated business combination that were recognized under Canadian GAAP and do not qualify for recognition under IFRS are then de-recognized.

Fair-value or revaluation as deemed cost

IFRS requires PP&E to be measured at a cost in accordance with IFRS (breaking down material items into components and amortizing each one separately). However, upon transition IFRS permits an asset to be recorded at deemed cost which is the fair value at date of transition, or an event-driven valuation (i.e., when an entity was privatized). The exemption noted above may be applied to individual items of PP&E. Any write-up of the asset to a fair value above cost will be recorded in retained earnings as a revaluation reserve.

Employee benefits

In the year of adoption the Company is able to recognize all cumulative actuarial gains and losses at the date of transition and book an adjustment to opening retained earnings. This election must be applied to all benefits and cannot be made on a plan-by-plan basis.

Cumulative translation adjustment

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires a company to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition with reclassification of the previous amount made to retained earnings.

See note 30, "Reconciliation of Canadian and United States Generally Accepted Accounting Principles", of the Company's consolidated financial statements for the year ended December 31, 2008 for the impact of U.S. GAAP on the Company's consolidated earnings and consolidated balance sheets.

14. Risks and uncertainties

The Company produces and markets pulp and paper products that are sold globally. The Company seeks to differentiate its product lines from those of other producers by supplying specialty products that add value for customers. However, like most companies in the forest products industry in North America, the Company faces business risks and uncertainties. These fall into the general business areas of markets, international commodity prices, currency exchange rates, environmental issues, fibre supply, government regulation and policy, and for Canadian companies, trade barriers and potential impacts of Aboriginal rights, including unresolved Aboriginal land claims in B.C.

In order to address these risks and effectively manage them, the Company's management has developed a process for managing risk and the interrelationships risks have with the Company's strategic plan. The Company provides regular updates to the Audit Committee, works with corporate and operational management to identify, measure, and prioritize the critical risks facing the Company, and manages these risks by ensuring that they are adequately addressed through mitigating procedures where appropriate. The objectives of the risk-management function include developing a common framework for understanding what constitutes principal business risks, ensuring that risk management activities are aligned with business strategies, and providing an effective mechanism for governance in the area of risk management.

The following is a discussion of the principal uncertainties to which the Company is subject:

The Company's business is of a cyclical nature and its product prices may fluctuate significantly

The pulp and paper industry is a commodity market in which producers compete primarily on the basis of price. Prices for the Company's products have fluctuated significantly in the past and may fluctuate significantly in the future, principally as a result of market conditions of supply and demand, as well as changes in exchange rates. In addition, demand for the Company's products is traditionally weaker in the first half of the year. The markets for pulp and paper products, including the Company's products, are highly variable and are characterized by periods of excess product supply due to many factors, including:

- additions to industry capacity;
- increased industry production;
- periods of insufficient demand due to weak general economic activity or other causes; and
- reduced inventory levels held by customers.

Demand for forest products is generally correlated with global economic conditions and in particular, consumption of pulp and paper products is primarily driven by levels of advertising. In periods of economic weakness, reduced spending by consumers and businesses results in decreased demand for forest products, resulting in lower product prices and possible manufacturing downtime. As a result of the significant weakening of the North American and global economies in 2008, market conditions are expected to be challenging throughout 2009. Adverse effects on the demand for the Company's products may decrease its sales, operating income and cash flows. In addition, newsprint is a mature market in North America and North American demand declined in 2008 by 11.2% from 2007, and 10.5% in 2007 from 2006. The Company believes this decline in newsprint demand will continue, although it is able to partially mitigate the impact through its ability to switch from newsprint to other paper grades.

Trends in advertising, electronic data transmission and storage, and the internet could have further adverse effects on traditional print media including the Company's products and those of its customers. The Company's newspaper, telephone directory and retail customers may make increasing use of other forms of media and advertising instead of newsprint, uncoated mechanical and coated mechanical papers made by the Company. The extent to which the use of other media sources will reduce demand for the Company's products, and the timing of any such reduction is unknown.

The Company's earnings are sensitive to price changes for its principal products, with the effect of price changes on newsprint and mechanical specialty printing paper grades being the greatest. Additionally, even though the Company's costs may increase, its customers may not accept price increases for its products or the prices for its products may decline. As the Company's financial performance is principally dependent on the prices it receives for its products, prolonged periods of low prices, customer refusal to accept announced price increases or significant cost increases that cannot be passed on in product prices may be materially adverse to the Company.

The Company is subject to the risks of exchange rate fluctuations

Nearly all of the Company's sales are based upon prices that are set in U.S. dollars, while a substantial portion of its costs and expenses are incurred in Canadian dollars and its results of operations and financial condition are reported in Canadian dollars. The value of the Canadian dollar in relation to the U.S. dollar has increased significantly in recent years. An increase in the value of the Canadian dollar relative to the U.S. dollar would reduce the amount of revenue in Canadian dollar terms realized by the Company from sales made in U.S. dollars. This would reduce the Company's operating margin and the cash flow available to fund its operations and to service the portion of its debt that is denominated in Canadian dollars.

Fluctuations in foreign currencies affect the Company's competitive position in world markets. Apart from the value of the Canadian dollar relative to the U.S. dollar, the Company's competitiveness in world markets is also affected by the relative strength of the currencies of other producing countries compared to the Canadian dollar.

The Company is also exposed to currency exchange risk on debt denominated in U.S. dollars, including its existing 8.625% senior notes and 7.375% senior notes. For the purposes of financial reporting, any change in the value of the Canadian dollar against the U.S. dollar during a given financial reporting period would result in a foreign currency gain or loss on the translation of any U.S. dollar cash and cash equivalents or U.S. dollar denominated debt into Canadian currency. Consequently, the Company's reported earnings could fluctuate materially as a result of foreign exchange translation gains or losses.

Under a Board-approved foreign exchange risk management program, the Company manages a portion of its currency exposure through the use of currency options and forward contracts to hedge anticipated future sales denominated in foreign currencies and U.S. dollar denominated debt. The Company's hedging policy for revenues includes 33% to 67% of 0- to 12-month and 0% to 25% of 13- to 24-month U.S. dollar net exposure. The revenue hedge program offsets the impact of any rapid movements in currency by 20% to 50% over the near term. In addition, the Company considers future U.S. dollar revenues to provide a partial natural hedge for its U.S. dollar denominated debt. The Company's hedging policy for its U.S. dollar denominated debt includes 0% to 60% of U.S. dollar net exposure. However, no assurance can be made that the Company will engage in any hedging transactions or, if it decides to engage in any such transactions, that it will be successful in eliminating currency exchange risks and that changes in currency exchange rates will not be materially adverse to the Company.

The Company faces significant global competition

The markets for the Company's products are highly competitive on a global basis. The Company generally competes with American, European and Asian producers. Many of these competitors are larger and have greater financial resources than the Company does and some of the mills operated by the Company's competitors are lower-cost producers than the mills the Company operates.

In addition, the following factors will also affect the Company's ability to compete:

- the quality of its products and customer service;
- its ability to maintain high plant efficiencies and operating rates and thus lower manufacturing costs;
- the cost of energy; and
- the availability, quality and cost of fibre and labour.

Some of the Company's competitors have lower energy, fibre and labour costs and fewer environmental and governmental regulations to comply with than the Company does. Others are larger in size, allowing them to achieve greater economies of scale on a global basis. If the Company is unable to successfully compete on a global basis and achieve sufficient economies of scale, it may be materially adverse to the Company.

The Company faces risks related to its international sales

A significant portion of the Company's sales are outside of Canada. For example, for the year ended December 31, 2008, approximately 86% of the Company's pulp sales volume and 17% of its paper sales volume were derived from markets outside of Canada and the United States. As a result, the Company faces a number of risks and challenges, including:

- the effective marketing of its products in these global regions;
- restrictive governmental actions such as the imposition of trade quotas, tariffs and other trade barriers and restrictions on transfers of funds;
- changes in non-Canadian labour laws and regulations affecting its ability to hire, retain or dismiss employees;
- the need to comply with multiple and potentially conflicting laws and regulations;
- unfavourable business conditions or political or economic instability in any particular country or region; and
- higher transportation costs reflecting increases in the cost of oil; and
- difficulty in obtaining distribution and logistics support.

Under the terms of a distribution agreement relating to sales of paper in certain of these international markets, representing approximately 5% of its paper sales volume for the year ended December 31, 2008, either party may terminate the agreement on six months' notice. The Company has recently served notice under this agreement of its intention to terminate the agreement at the end of April 2009. The Company is in the process of establishing its own network of agents that will allow the Company to increase its market penetration internationally and at lower cost than its previous arrangements.

The Company is exposed to fluctuations in the cost and supply of wood fibre

As the Company has no significant timber holdings, operations are dependent on the supply of wood fibre by third parties. Approximately 60% of the Company's fibre needs are provided by five suppliers. The Company's fibre supply could be reduced as a result of events beyond its control, such as industrial disputes, natural disasters, material curtailments and shutdown of operations by suppliers for market or other reasons. Market-related curtailments or shutdowns by fibre suppliers can be influenced by both seasonal and cyclical factors such as raw-material availability, finished-goods inventory levels, interest rates or underlying demand for lumber in key markets.

Long-term fibre agreements with third parties are conducted at either market prices or at prices determined under pulp-price-based formulas and represent approximately 64% of the Company's pulp and paper mills' wood fibre requirements. The solid wood segment of B.C.'s forest industry has undergone significant consolidation and downsizing in recent years, so no assurance can be made that the Company will continue to be able to access wood fibre at the same levels achieved in the past; therefore, fibre costs have the potential to be adversely impacted by forces beyond the Company's control.

In 2008, housing starts in the United States declined approximately 33% from 2007, which was already 25% below the level of 2006. By the end of 2008, seasonally adjusted annualized housing starts were almost 50% less than a year earlier. The weak United States housing market and the deteriorating economic conditions have caused B.C.'s lumber producers to curtail production. The result is that the Company's fibre suppliers are not able to supply the Company with historical wood-fibre levels. In early 2008, the Company announced curtailments of some of its operations as a result of its inability to obtain sufficient fibre to enable it to run at full capacity. In addition, the Company permanently closed its Elk Falls sawdust pulp mill and white top linerboard operation due to unavailability of sawdust fibre. Further pulp or paper production curtailments may be required if lumber production continues to decline.

The current infestation of the mountain pine beetle in the interior of B.C. has reduced the long-term fibre supply in that region. The beetle attacks lodgepole pine forests and once attacked, pine trees typically die within a year. Approximately 30% of the Company's fibre supply comes from the B.C. interior and it is used primarily by the Powell River paper mill and Crofton kraft pulp mill. In three to five years time, the infestation could have a significant impact on the availability and cost of fibre used by those mills.

In addition, government regulations and aboriginal issues may also lower the supply of wood fibre. The province of B.C. owns approximately 95% of all timberlands and could introduce legislation to reduce wood-fibre supply. Aboriginal groups have claimed aboriginal title over substantial portions of B.C.'s timberlands, including areas where the forest tenures held by the Company's suppliers are located. Although the renewal of forest tenures held by the Company's suppliers may be adversely impacted by claims of aboriginal title, the specific impact cannot be estimated at this time.

The Company is also a large consumer of ONP which is used to manufacture de-inked pulp (DIP). DIP is used as fibre for the Company's recycled products. The Company's ownership of Western Canada's largest paper recycling facility located in Coquitlam, B.C., enables it to produce 100% of the DIP required by its mills in B.C. While the supply of ONP to this facility remains reliable, there is a risk that sufficient quantities of ONP may not be available to support full operation of the recycling facility or that prices for ONP may rise beyond the point at which the facility can be operated profitably. The price of ONP may be impacted by a number of factors such as export demand, recovery rates and other factors beyond the control of the Company.

The Snowflake mill makes 100% recycled newsprint from ONP. There is a risk that sufficient quantities of ONP will not be available to the Company to support Snowflake's full operations or that prices for ONP will rise beyond the point at which the mill can be operated profitably. The price of ONP may be impacted by a number of factors such as export demand, recovery rates and other factors beyond the control of the Company.

The Company's substantial debt may impair its financial and operating flexibility

As of December 31, 2008, the Company had outstanding approximately $864.3 million of recourse debt on a consolidated basis. This amount excludes non-recourse debt in the amount of $94.4 million as of December 31, 2008 owed by a joint venture in which the Company has a 50.0% interest, which it consolidates into its accounts because it is a variable-interest entity in which the Company is the primary beneficiary.

The Company has a $330.0 million asset based revolving operating facility, which matures in August 2013. Collateral provided consists of the accounts receivable, inventories, and cash of the Company as well as a first charge on the PP&E of the Snowflake mill. Availability under the ABL Facility is determined by a borrowing base, calculated primarily on balances of eligible accounts receivable and inventory, less certain reserves. As of December 31, 2008, the borrowing base was $263.3 million. As of December 31, 2008, $60.1 million was drawn on the ABL Facility and, after giving effect to $27.9 million of outstanding letters of credit, $175.3 million was available to the Company to be drawn under the ABL Facility. For further details refer to Section 5, "Liquidity and capital resources" under "Capital resources".

The ABL Facility includes financial covenants to maintain shareholders' equity above $639 million, maintain excess availability above $35 million and to not make capital expenditures in excess of 120% of the annual budget.

The Company's debt agreements contain, and future debt agreements will likely contain, various restrictive and financial covenants, including restrictions on its ability to incur debt, sell assets, make investments, pay dividends, secure liens, enter into transactions with affiliates and enter into mergers and consolidations. All of these restrictions, together with the Company's substantial debt, could:

- limit its ability to obtain additional financing to fund growth, working capital, capital expenditures, debt-service requirements or other purposes;
- limit its ability to use operating cash flow in other areas of its business, because it must use a portion of these funds to make principal and interest payments on its debt;
- increase its vulnerability to interest rate fluctuations because the debt under its ABL Facility is at variable interest rates;
- limit its ability to compete with competitors who have more flexibility as to the use of their cash flow;
- limit its ability to make investments or take other actions; and
- limit its ability to react to changing market conditions, changes in its industry and economic downturns.

The Company's ability to satisfy its debt obligations will depend upon its future operating performance and its ability to obtain additional debt or equity financing, when necessary. Prevailing economic conditions and financial, business and other factors beyond its control may affect the Company's ability to make these payments. For example, depressed market conditions have been and in the future may be materially adverse to the Company. If in the future the Company cannot generate sufficient cash from operations to meet its obligations, it will need to renegotiate its loan agreements, refinance all or part of its notes, obtain additional financing or sell assets. No assurance can be made that the Company's business will generate sufficient cash flow or be able to obtain the funds necessary to satisfy these obligations or that it will be able to obtain additional or alternative financing. The Company may from time to time purchase its debt securities in the open market.

Similarly, if the Company breaches or is unable to meet the restrictions or financial covenants under its ABL Facility or under the indentures relating to its 7.375% and 8.625% senior notes, or other credit facilities and debt agreements it may enter into in the future, the Company would have to cure the default, obtain a waiver of the default or enter into an appropriate amendment to these agreements. If the Company is not able to cure such default, obtain such waiver or enter into such amendment, a significant portion of its debt, including all of its secured debt, would become immediately due and payable. The Company may not have, or be able to obtain, sufficient funds to make accelerated debt payments if so required. No assurance can be made that the Company will be able to effectively cure a breach or obtain debt or equity financing or sell assets as an alternative means of responding to a breach. As of December 31, 2008, the Company was in compliance with the covenants under both its agreement governing its ABL Facility and the indentures governing its 7.375% and 8.625% senior notes. The Company's fixed-charged coverage ratio under the senior notes, calculated on a trailing 12-month basis, was 2.1:1 as of December 31, 2008. If the Company's fixed-charge coverage ratio is below 2.0:1, under the terms of these indentures, it may not pay dividends and the Company is limited as to the amount of additional debt it may incur.

The Company's ABL Facility provides it with financing at floating interest rates. Future debt instruments may also be based on floating interest rates. The interest rates charged on the ABL Facility depend on the excess availability the Company has under the facility. Accordingly, changes in excess availability reduce or increase the Company's borrowing costs.

The Company has incurred losses in recent periods and may incur losses in the future which may affect ongoing operations

As of December 31, 2008, the Company had recorded net losses in eight of the last 12 quarters. The Company believes these losses arose primarily as a result of the strengthening Canadian dollar and, more recently because of increased fibre costs, fibre shortages and weaker market conditions, leading to production curtailments and higher energy costs. If the Company's revenues do not increase sufficiently, or even if its revenues increase but it is unable to manage its expenses, it will not achieve and maintain profitability in future periods. Should the Company continue to be unable to return to sustained profitability in future periods, it may, over time, need to rely to a greater extent on its ABL Facility and, if necessary, additional sources of funding.

Labour disruptions could have a negative impact on the Company's business

Approximately three quarters of the Company's existing pulp and paper mill employees in its Canadian operations are members of the Communications, Energy & Paperworkers Union of Canada ("CEP"), the Pulp, Paper and Woodworkers of Canada ("PPWC") or the Canadian Office and Professional Employees Union ("COPE"). Collective agreements with the CEP and PPWC locals at Crofton, Elk Falls, and Powell River were renegotiated in 2008 and expire in April 2012. A collective agreement with CEP locals at Port Alberni was also renegotiated in 2008 and expires in April 2013. Distribution centre employees are members of the Christian Labour Association of Canada ("CLAC") and 17 employees at the Port Alberni operations are members of COPE. The collective agreements with each of CLAC and COPE expire in April 2012. Most hourly employees at the Snowflake mill are members of the United Steelworkers Union ("USW") or the International Brotherhood of Electrical Workers ("IBEW"). Hourly employees of Apache Railway are members of the United Transportation Union ("UTU") or Carpenters Union. The collective agreements with the USW and IBEW expire in 2010 and the collective agreement with the UTU and Carpenters Union expires in 2011. The Company does not anticipate labour disruptions in its operations.

Many of the Company's suppliers and service providers are unionized. Strikes or work stoppages by members of those unions could result in a significant disruption of operations or higher operating costs, which could be materially adverse to the Company.

Negotiations between the B.C. Maritimes Employers' Association and the International Longshoreman Workers' Union are ongoing. In the event the parties fail to reach a labour agreement and a work stoppage occurs, the Company's sales to international customers would be disrupted.

Claims of aboriginal title and rights in Canada may affect the Company's operations

The Company's ability to operate its manufacturing facilities may also be affected by aboriginal groups' claims of aboriginal title and rights. The governments of Canada and B.C. have established a formal process to negotiate settlements with aboriginal groups throughout B.C. in order to resolve these land claims. It is the policy of the governments that ownership of lands held in fee simple by third parties such as the Company will not be affected by treaty negotiations. In the case of the Powell River mill, the site has been included in areas to which an aboriginal group has asserted aboriginal title both through treaty negotiations with government and by commencing an action in 2005 in the Supreme Court of B.C. While the Company and other industrial companies have been named as parties in the court proceeding along with the governments of Canada and B.C., counsel for the aboriginal group has advised the Company that the plaintiffs are currently negotiating with these two governments and have no intention of proceeding with the action at this time. Based on the history of similar proceedings, the Company expects that it would take many years before a final court decision could be rendered if the court proceeding were pursued.

Recent Supreme Court of Canada decisions have confirmed that the governments of Canada and B.C. are obligated to consult with and, in certain circumstances, accommodate aboriginal groups whenever there is a reasonable prospect decisions, such as a decision to issue or amend a regulatory permit, may affect aboriginal groups' rights or title. This duty of consultation and accommodation may affect the Company's ability to obtain or amend necessary regulatory permits on a timely basis and may influence the conditions set out in such permits.

Increases in energy costs could have a negative impact on the Company's business

The Company is a significant consumer of electrical power. The Company's electricity supply agreements are provincially regulated, and historically pricing has been very stable. However, in recent years BC Hydro and Power Authority ("BC Hydro") has sought, and to some extent achieved, rate increases above historical levels. Although much of the impact of these rate increases has been offset by the Company through reductions in usage at the highest incremental power rate, the Company expects BC Hydro rate increases to be more significant in the future in response to a new B.C. energy policy mandating self-sufficiency by 2016 and reflecting the higher cost of marginal resources. The Company believes that B.C.'s electricity rates will continue to be low relative to other regions in North America, although future changes in electricity prices could have a significant impact on the Company's earnings.

Production curtailments taken by the Company, and the resultant drop in power consumption, may trigger a reset of the consumption baseline used by BC Hydro to calculate the split of the Company's electricity supply between a lower cost "Tier 1" portion and a higher cost "Tier 2" portion. If such an event occurred, it could increase the Company's power costs by up to $20 million per year beginning in April 2009. The Company is working with BC Hydro to minimize this risk.

The majority of the Company's fossil fuels, particularly oil and natural gas, are purchased on the spot market, which can fluctuate significantly depending on various external factors. The Company has sought to reduce the cost of energy by reducing fossil fuel usage through increased use of wood waste ("hog fuel") and has invested in energy efficient hog fuel boilers at its mills. However, hog fuel availability is dependant on sawmill operating rates which are subject to the strength of the lumber market. In 2007 and 2008, the Company has had to increase fossil fuel usage to offset hog fuel shortages.

A portion of the Company's exposure to fluctuating fossil fuel prices is managed through the use of financial instruments and physical supply agreements, under a Board-approved energy program. The Company's energy hedging policy is restricted to 10% to 70% of the net exposure for oil and gas. In addition, where technically feasible and subject to emissions permits, the Company reduces its exposure to fossil fuel prices through the substitution of lower-priced alternatives.

Freight charges and chemical expenses also vary with oil and diesel fuel prices.

The Company is subject to significant environmental regulation

The Company is subject to extensive environmental laws and regulations. These environmental laws and regulations impose stringent standards on the Company regarding, among other things:

- air emissions;
- water discharges;
- use and handling of hazardous materials;
- use, handling and disposal of waste; and
- remediation of environmental contamination.

The Company may be required to incur substantial costs to comply with environmental laws. Enforcement of existing environmental laws and regulations has become increasingly strict. Some of the Company's operations are also subject to stringent permitting requirements and from time to time it faces opposition to construction or expansion of proposed facilities, such as landfills. The Company may discover currently unknown environmental liabilities in relation to its past or present operations or at its current or former facilities, or it may be faced with difficulty in obtaining project approvals in the future. These occurrences may (i) require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations, (ii) result in denial of required permits, (iii) result in governmental or private claims for damage to person, property or the environment, or (iv) result in civil or criminal fines and penalties or other sanctions.

On February 20, 2008, the B.C. government announced a broad-based carbon tax on fossil fuels, commencing July 1, 2008. For the six months ended December 31, 2008, the Company paid $1.2 million related to this carbon tax and the impact may increase in future years, depending on the Company's ability to decrease its use of fossil fuel.

The federal government of Canada has indicated its intent to regulate priority air pollutants and greenhouse gases ("GHG") under the *Clean Air Act* and the *Canadian Environmental Protection Act*. The forest products sector is named as one of the targeted sectors for regulation in each case. The priority air pollutants include particulate matter (PM) and sulphur oxides (SOx). Under the proposed targets the Company's Crofton mill may be required to make PM and SOx emission reductions by 2015. The cost of making any such reductions is presently unknown. The federal government has also established proposed GHG intensity targets which require an 18% emission intensity reduction by 2010, a 26% reduction by 2015, and a 33% reduction by 2020 – all based on 2006 emissions. Due to the extensive reductions achieved by the Company's operations since 1990 and the favourable treatment of steam and electricity by the federal policy, the Company expects to be able to meet these GHG targets.

The province of B.C. is a signatory to the Western Climate Initiative (WCI), an organization of four provinces and seven U.S. states, whose mandate is to achieve a 15% reduction in greenhouse gases below 2005 levels among member entities by 2020. In addition, the B.C. government has announced a goal of reducing the provincial release of greenhouse gases by 33% by 2020, based on 2007 levels, with interim targets of 6% by 2012 and 18% by 2016. It is too early to determine the impact on the Company and whether the Company will have a deficit or surplus of carbon credits under any relevant regulatory scheme.

The finalization of Canadian federal and provincial climate change regulation may depend, in part, on regulatory initiatives undertaken in the U.S. It is therefore too early to determine the overall impact of these initiatives on the Company or when they may come into effect.

The new administration in the United States has indicated its intention to introduce more stringent environmental regulation and implement policies designed to reduce greenhouse gas emissions. It is too early to determine the impact such legislation and policies will have on the Company's Snowflake operations, but the Company could be required to incur additional capital expenditures, purchase offset credits, or take other actions that increase the Snowflake mill's capital or operating costs.

Additional regulatory initiatives may be implemented in other jurisdictions to address greenhouse gas emissions and other climate-change related concerns. If and to the extent the Company operates or offers its products for sale in such jurisdictions it may be required to incur additional capital expenditures, operating costs or mitigating expenses (such as carbon taxes) to comply with any such initiative.

The Company is dependent on the supply of certain raw materials

In addition to wood fibre and ONP, the Company is dependent on the supply of certain chemicals and other inputs used in its production facilities. Any disruption in the supply of these chemicals or other inputs could affect its ability to meet customer demand in a timely manner and would harm its reputation. Any material increase in the cost of these chemicals or other inputs could have a negative impact on the Company's business.

Increases in capital and maintenance expenditures and equipment failures could have a negative impact on the Company's business

The Company's business is capital intensive. Its annual capital expenditures may vary due to fluctuations in requirements for maintenance, business capital, expansion and as a result of changes to environmental regulations that require capital for compliance. In addition, the Company's senior management and Board of directors may approve projects in the future that will require significant capital expenditures. Further, while the Company regularly performs maintenance on its manufacturing equipment, key pieces of equipment in its various production processes may still need to be repaired or replaced. The costs

of performing maintenance and capital work and repairing or replacing equipment, and the associated down time, could have a negative impact on the Company's business. In addition, the Company may temporarily suspend its operations at one or more of its manufacturing facilities to perform necessary maintenance or capital work. These temporary suspensions of operations could affect the Company's ability to meet customer demand in a timely manner. Any such failure to meet customer demand would harm the Company's reputation and could be materially adverse to the Company.

The Company may be subject to periodic litigation which could result in unexpected expenditures of time and resources

The Company may from time to time become party to claims and litigation proceedings, which are generally related to contract disputes and employment law. Such matters are subject to many uncertainties and the Company cannot predict with assurances the outcomes and ultimate financial impacts of them. There can be no guarantees that actions that may be brought against the Company in the future will be resolved in its favour or that the insurance the Company carries will be available or paid to cover any litigation exposure. Any losses from settlements or adverse judgments arising out of these claims could be materially adverse to the Company.

The Snowflake mill is dependent on the Little Colorado River for its water requirements. The Little Colorado River Adjudication, filed in 1978, is pending in the Superior Court of Arizona, Apache County. The purpose of this adjudication is to determine the nature, extent and relative priority (if applicable) of the water rights of all claimants to the Little Colorado River system and source. There are more than 3,500 claimants, including Snowflake. Native American tribes and the United States government contend that Snowflake's withdrawal and use of water impermissibly interfere with water rights based on applicable U.S. federal law. The prior owners of Snowflake denied this contention. However, an adverse determination could restrict Snowflake's access to water.

Refer to Section 7, "Contingent liability" for details regarding a dispute related to the Company's declaration of force majeure in connection with its obligation to purchase a minimum amount of steam from the cogeneration facility at the Elk Falls mill site.

The Company extends trade credit to its customers and they may not pay the company promptly or in full

The Company extends trade credit to most of its customers to facilitate the purchase of its products. The Company relies on the creditworthiness of such customers. Some of the Company's customers operate in highly competitive, mature, cyclical or low-margin businesses. Some are highly levered financially or experiencing negative cash flows such that they may need to refinance, restructure, file for bankruptcy protection or go bankrupt. In 2008, three of the Company's largest customers, each representing less than 5% of sales, filed for bankruptcy protection in Canada and/or the United States. Volatile capital market conditions or illiquid financial markets may result in the Company having a higher preponderance of such customers during an economic downturn. The failure of such customers to pay the Company promptly and in full under the terms of the trade credit the Company extends to them could have a material adverse effect on its business, financial condition, results of operations and cash flow or its ability to satisfy its obligations under its debt.

Consumer boycotts or increases in costs due to chain-of-custody programs may adversely affect demand for the Company's products

Some customers have become sensitive to issues related to harvesting of old growth forests and require that the Company supply products that are not produced from old growth forests. A growing number of customers want to purchase products that originate from sustainable managed forests, as validated by certification schemes. The Company has implemented an independent chain-of-custody system to verify that select paper products at its Crofton, Elk Falls, Port Alberni and Powell River mills contain 100% certified wood fibre. However, in order to meet its customers' demands the Company may be required to establish additional or more stringent chain-of-custody certification programs. This may increase its costs. If the Company cannot successfully establish such programs, demand for its products may be adversely affected. Also, the Company may be the subject of organized boycotts or similar actions by environmental or other groups, which may adversely affect demand for its products.

The Company's insurance is limited and subject to exclusions

The Company has obtained insurance coverage that it believes would ordinarily be maintained by an operator of facilities similar to its facilities. The insurance policies are subject to limits and exclusions. Damage or destruction to its facilities could result in claims that are excluded by its insurance policies or exceed the limits of its policies.

The Company's mills are located in seismically active areas

Since Vancouver and the south coast of B.C. are located in a seismically active area, the Company is particularly susceptible to the risk of damage to, or total destruction of, its existing mills and the surrounding transportation infrastructure caused by earthquakes. Further, the Company's existing mills are located directly adjacent to the ocean, and the south coast of B.C. is an area that could be susceptible to similar damage caused by tsunamis. The Company may not be insured sufficiently to cover the total amount of any losses caused by an earthquake or tsunami. In addition, the Company's insurance against any losses due to interruptions in its operations due to damage to, or destruction of, its mills caused by earthquakes or tsunamis or to major transportation infrastructure disruptions or other natural events that do not occur on its premises is subject to limits and deductions that may limit the amount recoverable.

Post-retirement plan obligations may affect the Company's financial condition

The Company maintains defined benefit pension plans and other post-retirement benefit plans for health care and life insurance. As at December 31, 2008, the underfunded liability relating to the defined benefit pension plans was $113.7 million and the underfunded liability relating to other post-retirement benefit plans was $163.7 million. Post-retirement funding requirements are dependent on various factors, including interest rate levels, asset returns, regulatory requirements for funding purposes, and changes to plan benefits. In 2009, the Company is required to make a contribution of $5.8 million in excess of its annual pension expense to satisfy a portion of the underfunded liability of the defined benefit pension plan. The Company expects to continue to make contributions to fund post-retirement plan obligations and meet legal funding obligations for the defined benefit pension plan. No assurance can be made that the plans' underfunded liability will not be materially adverse to the Company in the future.

A change of legal control of the Company could be materially adverse to the Company

The Company has issued and outstanding US$400 million principal amount of 8.625% senior notes due June 2011 and US$250 million principal amount of 7.375% senior notes due March 2014. The indentures governing the notes contain covenants relating to, among other things, a "Change of Control Triggering Event" of the Company. A Change of Control Triggering Event means the occurrence of both a "Rating Decline" and a "Change of Control" (as such terms are defined in the indentures). Upon the occurrence of a Change of Control Triggering Event, the Company is obligated to make an offer to purchase all outstanding notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the Change of Control Payment Date (as defined in the Indentures), in accordance with the procedures set out in the Indentures. If a "Change of Control" and a "Rating Decline" were to occur, the Company may not have sufficient resources to fund any required repurchase of notes.

15. Sensitivity analysis

The Company's earnings are sensitive to fluctuations in:

Product price

The Company's products are commodity-based and cyclical in nature. As a result, earnings are sensitive to price changes, with the effect of price changes on specialty printing paper grades and newsprint being the greatest.

Foreign exchange

The Company's products are primarily sold in Canada, the United States, Asia and Australasia, Latin America and Europe. The majority of sales are denominated in foreign currencies, principally the U.S. dollar. As a result, the Company is exposed to foreign currency risk on accounts receivable and future sales.

Energy costs

The Company's earnings could be significantly impacted by changes in prices and terms of energy-supply contracts, as the Company is a significant consumer of electrical power, fossil fuels, and input materials whose pricing is highly correlated to energy costs.

Fibre

The Company's supply of fibre is subject to market influences and has some degree of variability. Fibre supply includes wood chips, logs and ONP.

The Company's annual EBITDA, net earnings and earnings per share are estimated to be impacted by changes in product prices, foreign exchange and input costs as follows:

(In millions of dollars, except per-share amounts)	EBITDA[5]	Net earnings[1]	Earnings per share
Product prices[2]			
A US$10 per tonne change in the sales price of:			
Specialty printing papers	$ 14	$ 10	$ 0.03
Newsprint	12	8	0.02
Pulp	4	3	0.01
Foreign exchange[3]			
A US$0.01 change in the U.S. dollar relative to the Canadian dollar	$ 13	$ 9	$ 0.02
Energy cost sensitivity[4]			
A 5% change in the price of:			
Natural gas and oil – direct purchases	$ 3	$ 2	$ 0.01
Electricity – direct purchases	7	5	0.01
Coal	1	1	0.00
Fibre sensitivity[4]			
A US$5 per unit change in the price of:			
Wood chips (Bdt)	$ 10	$ 7	$ 0.02
ONP (ST)	3	2	0.01

1 Based on an expected tax rate of 31%.
2 Based on full 2009 capacities and foreign exchange rate of US$0.82
3 Based on a movement from US$0.82 to US$0.83 and excluding the Company's hedging program and the impact of the Company's translation of U.S. dollar denominated debt.
4 Based on 2008 consumption levels.
5 EBITDA is a non-GAAP measure. Refer to Section 10, "Non-GAAP measures" for further details.

16. Outlook

The North American and global economic recession is expected to result in a difficult environment for the Company in 2009. Demand across all products is expected to be down significantly due to lower print advertising and lower newspaper circulation. The Company expects fibre supply to remain tight, which along with weak market demand could lead to further pulp and paper production curtailment in 2009. Weak demand is also expected to lead to downward pressure on product prices. A weaker Canadian dollar and lower energy costs are expected to bring some respite but may not completely offset the challenges of volume and price in 2009 without changes to the current market outlook and industry operating rates.

Production curtailment

The table below summarizes the production curtailment the Company currently anticipates in the first quarter of 2009:

2009 – Q1 forecast production curtailment

(000 tonnes)	Newsprint[1]	Pulp	Total
Snowflake (Jan/Feb/Mar)	20.0	–	20.0
Crofton (Jan/Feb/Mar)	22.0	38.0	60.0
Elk Falls (Jan/Feb/Mar)	51.0	–	51.0
Total	93.0	38.0	131.0

1 Curtailment includes market curtailment related to E1 and C1 which are indefinitely curtailed (61,600 tonnes in Q1).

Significant production curtailment in the fourth quarter of 2008 and announced for the first quarter of 2009 represents, on average, approximately 35% of the Company's newsprint capacity, 5% of specialty printing papers capacity and 27% of its market pulp capacity in those periods and an additional 30,000 to 35,000 tonnes is expected to be necessary in the first quarter to maintain inventory at an appropriate level. The Company expects production curtailment to continue into the second quarter due to declining demand, based on current trends in advertising and paper consumption. Decisions as to the specific extent of further curtailments in the first quarter and beyond will be made as required based on market conditions at the time.

Capital spending

Capital spending is expected to remain at basic maintenance levels of approximately $45 million in 2009.

Liquidity, debt maturities, and covenants

Liquidity at December 31, 2008 was $180.3 million, primarily comprised of availability under the Company's ABL Facility. During 2008, the Company generated cash from operations of $75.7 million and free cash flow of $45.2 million. The Company expects that interest payments and capital expenditures in 2009 will be comparable to 2008 and does not currently anticipate any other significant sources or uses of cash in 2009 other than the results of the Company's operations, working capital fluctuations, and any restructuring costs the Company may incur in implementing cost reduction opportunities. In 2008, the Company filed a formal valuation of its defined benefit pension plans as at December 31, 2007 which established the funding requirements for these plans until the end of 2010. Based on this valuation, the Company's cash contribution for defined benefit pension plans in each of 2009 and 2010 will be approximately $7 million lower than 2008. EBITDA in 2008 was $159.4 million and the Company's outlook for the key factors expected to impact results in 2009 is discussed above. The Company believes its liquidity as at December 31, 2008 is sufficient to meet its requirements in 2009.

The maturity of the Company's long-term debt is set out in note 18, "Long-term Debt", to the Company's consolidated financial statements for the year ended December 31, 2008. The earliest maturity on debt that has recourse to the Company is in 2011 and the Company's ABL Facility has a term to August 2013. The Company has a 50% interest in PREI which has debt maturing in July 2009 of $74.9 million. Although this debt is non-recourse to the Company, and is anticipated to be refinanced, the Company would be likely to contribute its 50% share of the debt repayment, $37.5 million, to the extent that PREI was not able to refinance this debt prior to maturity.

The principal financial covenants on the Company's ABL Facility are (a) maintaining minimum shareholders' equity of $639 million as at December 31, 2008, (b) maintaining minimum availability of $35 million, and (c) restricting capital expenditures to 120% of the annual operating budget. The Company anticipates being able to meet these financial covenants during 2009. The Company has no significant maintenance covenants attached to its other long-term debt.

For further details on the Company's financial condition, see Section 5, "Liquidity and capital resources" and note 18, "Long-term Debt", to the Company's consolidated financial statements for the year ended December 31, 2008.

2009 key priorities

In light of the current global economic downturn, challenging capital markets, and consequently difficult operating environment, the Company is focused on improving its cost base and market position and on the ability to emerge from the current market downturn in a strong competitive position in the industry. Key priorities in 2009 are:

- focus on cash flows and liquidity through the prudent use of capital, including limiting capital expenditures to basic maintenance of business levels and refinancing the 2009 non-recourse debt maturity of PREI;
- maintain the Company's focus on matching production to customer orders and keep inventories at appropriate levels;
- identify further opportunities to reduce "fixed" costs during periods of production curtailment to minimize the financial impact of operating at reduced volumes;
- finalize and implement plans to reduce labour costs to $80 per tonne at Crofton, Elk Falls and Powell River mills; and
- reduce municipal property taxes in the four municipalities in B.C. that the Company operates in from the current combined level of $23 million.

17. Disclosure controls and internal control over financial reporting

The Company conducted an evaluation under the supervision and with the participation of management, including the chief executive officer and chief financial officer, as of December 31, 2008, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that such disclosure controls and procedures – as defined in Canada by Multilateral Instrument

52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, and in Rules13a-15(e) and 15d-15(e) promulgated under the *United States Securities Exchange Act of 1934*, as amended ("*the U.S. Exchange Act*") – are effective to ensure that information required to be disclosed by the Company in reports it files or submits under applicable Canadian and U.S. securities laws is:

(a) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Canadian and U.S. securities regulatory authorities, and

(b) accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

It should be noted that while the Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving their objectives, the Company's chief executive officer and chief financial officer do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There have been no changes in the Company's internal control over financial reporting that occurred during the period ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Section 404 of the United States *Sarbanes-Oxley Act, Management Assessment of Internal Controls* ("Section 404"), continues to require that management (a) have the responsibility for establishing and maintaining an adequate internal control structure and procedure for financial reporting, and (b) assess and report on the effectiveness of internal control over financial reporting annually. As of December 31, 2008, management has assessed the effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has determined the Company's internal control over financial reporting was effective as of December 31, 2008, and issued Management's Report on Financial Statements and Assessment of Internal Control over Financial Statements dated February 11, 2009, to that effect.

The design and maintenance of adequate disclosure controls and procedures and internal control over financial reporting include controls, policies and procedures of the Company's Snowflake recycle newsprint mill effective from the date of acquisition, April 10, 2008. Management has limited the scope of the design and maintenance of adequate disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Powell River Energy Inc., a variable interest entity in which the Company is the primary beneficiary.

The Company's Audit Committee, as part of its oversight role, has reviewed and recommended the approval of this MD&A to the Board of directors. The Board of directors has read and approved this MD&A. Through discussions with management, the Board of directors and the Audit Committee have satisfied themselves that management has implemented the necessary disclosure controls.

18. Outstanding share data

At February 12, 2009, the Company had 381,753,490 common shares issued and outstanding.

Additional information about the Company including its most recent Annual Information Form is available on the Company's website at **www.catalystpaper.com**, or the Canadian Securities Administrator's electronic filing website at **www.sedar.com**.

Management's Responsibility

Management's report on financial statements and assessment of internal control over financial reporting

Catalyst Paper Corporation's management is responsible for the preparation, integrity and fair presentation of the accompanying consolidated financial statements and other information contained in this Annual Report. The consolidated financial statements and related notes were prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, except note 30 which sets out the significant measurement differences had these statements been prepared in accordance with U.S. GAAP, and reflect management's best judgments and estimates. Financial information provided elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for designing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for reporting purposes. Internal control over financial reporting include processes and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately reflect the transactions of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements and footnote disclosures;
- provide reasonable assurance that receipts and expenditures of the Company are appropriately authorized by the Company's management and directors; and
- provide reasonable assurance regarding the prevention or timely detection of an unauthorized use, acquisition or disposition of assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in condition, or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. Management based this assessment on the criteria for internal control over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of the Company's Board of Directors.

Based on this assessment, management determined that, as of December 31, 2008, the Company's internal control over financial reporting was effective.

The Company's independent auditor which audited and reported on the Company's consolidated financial statements has also issued an auditors' report on the Company's internal control over financial reporting.

The Board of Directors is responsible for satisfying itself that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, which is comprised of four non-management members of the Board of Directors, provides oversight to the financial reporting process. The Audit Committee meets periodically with management, the internal auditors and the external auditors to review the consolidated financial statements, the adequacy of financial reporting, accounting systems and controls and internal and external auditing functions.

These consolidated financial statements have been audited by KPMG LLP, the independent auditors, whose report follows.

Richard Garneau
President and Chief Executive Officer

David Smales
Vice-President, Finance and Chief Financial Officer

Vancouver, Canada
February 11, 2009

Auditors' Report on Financial Statements

To the shareholders of Catalyst Paper Corporation

We have audited the consolidated balance sheets of Catalyst Paper Corporation ("the Company") as at December 31, 2008 and 2007 and the consolidated statements of earnings and comprehensive income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Vancouver, Canada

February 11, 2009

Report of Independent Registered Public Accounting Firm

Auditors' report on internal control over financial reporting under standards of the public company accounting oversight board (United States)

To the shareholders and board of directors of Catalyst Paper Corporation

We have audited Catalyst Paper Corporation ("the Company")'s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Financial Statements and Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have conducted our audits on the consolidated financial statements in accordance with Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States). Our report dated February 11, 2009, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Vancouver, Canada

February 11, 2009

Consolidated Statements of Earnings and Comprehensive Income (Loss)

Years ended December 31, (In millions of dollars, except where otherwise stated)	2008	2007	2006
Sales	$ 1,849.4	$ 1,714.6	$ 1,882.5
Operating expenses			
Cost of sales	1,613.0	1,574.6	1,609.3
Selling, general and administrative	46.9	48.3	62.2
Restructuring and change-of-control (note 7)	30.1	64.7	–
Amortization	165.8	176.4	183.7
Impairment (note 4)	151.0	–	23.4
	2,006.8	1,864.0	1,878.6
Operating earnings (loss)	(157.4)	(149.4)	3.9
Interest expense, net (note 8)	(75.0)	(70.7)	(73.8)
Foreign exchange gain (loss) on long-term debt	(82.2)	103.9	(0.3)
Other income (expense), net (note 9)	2.5	(15.3)	1.8
Earnings (loss) before income taxes and non-controlling interest	(312.1)	(131.5)	(68.4)
Income tax recovery (note 10)	(91.8)	(100.0)	(54.0)
Net earnings (loss) before non-controlling interest	(220.3)	(31.5)	(14.4)
Non-controlling interest (note 5)	(0.8)	(0.1)	(1.5)
Net earnings (loss)	$ (221.1)	$ (31.6)	$ (15.9)
Other comprehensive income (loss)	(18.5)	14.3	–
Comprehensive income (loss)	$ (239.6)	$ (17.3)	$ (15.9)
Basic and diluted earnings (loss) per share (note 11) (in dollars)	$ (0.66)	$ (0.15)	$ (0.07)
Weighted average common shares outstanding (in millions)	336.1	214.7	214.6

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

As at December 31, (In millions of dollars)	2008	2007
Assets		
Current assets		
Cash and cash equivalents	$ 5.0	$ –
Accounts receivable (note 12)	221.7	213.1
Inventories (note 13)	211.4	235.7
Prepaids and other (note 14)	32.8	40.7
	470.9	489.5
Property, plant and equipment (note 15)	1,852.0	1,912.8
Other assets (note 16)	100.5	54.8
	$ 2,423.4	$ 2,457.1
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 17)	$ 269.4	$ 268.2
Current portion of long-term debt	75.8	1.2
	345.2	269.4
Long-term debt (note 18)	882.9	784.6
Employee future benefits (note 19)	226.6	211.7
Other long-term obligations (note 20)	13.3	26.9
Future income taxes (note 10)	66.8	154.2
Deferred credits (note 21)	18.6	21.7
	1,553.4	1,468.5
Shareholders' equity		
Share capital (note 22)	1,035.0	913.9
Contributed surplus	14.6	12.1
Retained earnings (deficit)	(174.7)	49.0
Accumulated other comprehensive income (loss)	(4.9)	13.6
	870.0	988.6
	$ 2,423.4	$ 2,457.1

Commitments, Guarantees and Indemnities and Contingent Liabilities (notes 26, 27, and 28)

Subsequent event (note 4)

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board:

Richard Garneau
Director

Thomas S. Chambers
Director

Consolidated Statements of Shareholders' Equity

Years ended December 31, (In millions of dollars, except where otherwise stated)	2008	2007	2006
Share capital (note 22)			
Number of shares outstanding, beginning of year	214,684,129	214,604,120	214,604,120
Number of shares issued under rights offering (note 6)	167,069,361	–	–
Number of shares issued under stock option plan	–	80,009	–
Number of shares outstanding, end of year	381,753,490	214,684,129	214,604,120
Balance, beginning of year	$ 913.9	$ 913.6	$ 913.6
Issue of common shares on rights offering, net of share issue costs (note 6)	121.1	–	–
Stock options exercised	–	0.3	–
Balance, end of year	1,035.0	913.9	913.6
Contributed surplus			
Balance, beginning of year	12.1	9.3	7.3
Stock option compensation expense	2.5	3.2	2.0
Stock options exercised	–	(0.4)	–
Balance, end of year	14.6	12.1	9.3
Retained earnings (deficit)			
Balance, beginning of year	49.0	82.9	98.8
Adoption of new accounting standards (note 2(c))	(2.6)	(2.3)	–
Net earnings (loss)	(221.1)	(31.6)	(15.9)
Balance, end of year	(174.7)	49.0	82.9
Accumulated other comprehensive income (loss)			
Balance, beginning of year	13.6	–	–
Adoption of new accounting standards for financial instruments	–	(0.7)	–
Change in foreign currency translation of self-sustaining foreign subsidiaries, net of related hedging activities	6.7	–	–
Unrealized net gain (loss) on cash flow revenue hedges, net of tax of $11.1 million (2007 – $13.8 million)	(25.0)	28.4	–
Reclassification of net gain (loss) on cash flow revenue hedges to net earnings (loss), net of tax of $0.1 million (2007 – $7.3 million)	(0.2)	(14.1)	–
Balance, end of year	(4.9)	13.6	–
Total shareholders' equity	$ 870.0	$ 988.6	$ 1,005.8

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, (In millions of dollars)	2008	2007	2006
Cash flows provided (used) by:			
Operations			
Net earnings (loss)	$ (221.1)	$ (31.6)	$ (15.9)
Items not requiring (providing) cash			
Amortization	165.8	176.4	183.7
Impairment (note 4)	151.0	–	23.4
Future income taxes (note 10)	(93.5)	(100.7)	(56.1)
Foreign exchange loss (gain) on long-term debt	82.2	(103.9)	0.3
Employee future benefits, excess of expense over funding	2.9	6.7	6.4
Increase (decrease) in other long-term obligations	(5.1)	7.5	0.9
Loss (gain) on disposal of property, plant and equipment (note 9)	(0.4)	13.6	(1.1)
Non-controlling interest	0.8	0.1	1.5
Lower of cost or market write-down of inventories (note 13)	5.9	1.8	(2.0)
Other	22.3	(20.9)	(6.3)
	110.8	(51.0)	134.8
Changes in non-cash working capital			
Accounts receivable	(7.4)	64.2	(35.5)
Inventories	21.5	7.4	2.7
Prepaids and other	3.6	(5.0)	(0.9)
Accounts payable and accrued liabilities	(52.8)	(18.3)	26.1
	(35.1)	48.3	(7.6)
Cash flows provided (used) by operations	75.7	(2.7)	127.2
Investing			
Acquisition of Snowflake newsprint mill (note 6)	(169.8)	–	–
Additions to property, plant and equipment	(41.9)	(85.8)	(93.2)
Proceeds from sale of property, plant and equipment	2.2	6.5	3.5
Proceeds from termination of interest rate swaps (note 24 (e))	7.6	–	–
Purchase price adjustment (note 25)	–	–	4.3
Increase in other assets	(1.0)	(4.4)	(0.4)
Cash flows used by investing activities	(202.9)	(83.7)	(85.8)
Financing			
Issue of shares, net of share issue costs (note 6)	121.1	–	–
Increase (decrease) in revolving loan and loan payable	60.1	47.0	(5.5)
Repayment of revolving operating loan	(47.1)	–	–
Deferred financing costs	(5.5)	–	–
Increase (decrease) in other long-term debt	3.6	3.6	(0.4)
Issue of shares from exercise of stock options	–	0.3	–
Cash flows provided (used) by financing activities	132.2	50.9	(5.9)
Cash and cash equivalents, increase (decrease) in the year	5.0	(35.5)	35.5
Cash and cash equivalents, beginning of year	–	35.5	–
Cash and cash equivalents, end of year	$ 5.0	$ –	$ 35.5
Supplemental disclosures:			
Income taxes paid	$ 0.8	$ 0.5	$ 2.7
Net interest paid	74.4	67.8	71.5

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Business Segments

Year ended December 31, 2008 (In millions of dollars)	Specialty printing papers	Newsprint	Pulp	Corporate adjustments	Consolidated
Sales to external customers	$ 1,000.9	$ 463.9	$ 384.6	$ –	$ 1,849.4
Inter-segment sales	–	–	36.8	(36.8)	–
Restructuring (note 7)	10.6	4.1	15.4	–	30.1
Amortization	100.6	37.3	27.9	–	165.8
Impairment (note 4)	11.9	2.4	136.7	–	151.0
Operating earnings (loss)	27.0	3.6	(188.0)	–	(157.4)
Total assets	1,387.7	697.8	280.7	57.2	2,423.4
Additions to property, plant and equipment	24.2	15.1	2.6	–	41.9

Year ended December 31, 2007 (In millions of dollars)	Specialty printing papers	Newsprint	Pulp	Corporate adjustments	Consolidated
Sales to external customers	$ 919.6	$ 338.0	$ 457.0	$ –	$ 1,714.6
Inter-segment sales	–	–	45.3	(45.3)	–
Restructuring and change-of-control (note 7)	42.2	12.9	9.6	–	64.7
Amortization	101.3	33.2	41.9	–	176.4
Operating earnings (loss)	(75.1)	(56.9)	(17.4)	–	(149.4)
Total assets	1,435.0	518.6	483.2	20.3	2,457.1
Additions to property, plant and equipment	42.8	32.4	10.6	–	85.8

Year ended December 31, 2006 (In millions of dollars)	Specialty printing papers	Newsprint	Pulp	Corporate adjustments	Consolidated
Sales to external customers	$ 918.4	$ 529.8	$ 434.3	$ –	$ 1,882.5
Inter-segment sales	–	–	47.2	(47.2)	–
Amortization	94.6	45.8	43.3	–	183.7
Impairment (note 4)	0.5	19.1	3.8	–	23.4
Operating earnings (loss)	9.7	6.9	(12.7)	–	3.9
Total assets	1,355.3	737.8	529.5	18.7	2,641.3
Additions to property, plant and equipment	48.4	34.4	10.4	–	93.2

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Geographic Business Segments

2008 (In millions of dollars)	Specialty printing papers	Newsprint	Pulp	Total
Sales by shipment destination:				
Canada	$ 138.0	$ 58.8	$ 12.6	$ 209.4
United States	764.6	261.8	50.6	1,077.0
Asia and Australasia	28.2	71.7	191.6	291.5
Latin America	69.9	70.6	29.5	170.0
Europe and other	0.2	1.0	100.3	101.5
	$ 1,000.9	$ 463.9	$ 384.6	$ 1,849.4

2007 (In millions of dollars)	Specialty printing papers	Newsprint	Pulp	Total
Sales by shipment destination:				
Canada	$ 121.0	$ 60.7	$ 14.5	$ 196.2
United States	712.2	145.7	47.0	904.9
Asia and Australasia	22.7	67.8	242.2	332.7
Latin America	59.9	61.6	36.7	158.2
Europe and other	3.8	2.2	116.6	122.6
	$ 919.6	$ 338.0	$ 457.0	$ 1,714.6

2006 (In millions of dollars)	Specialty printing papers	Newsprint	Pulp	Total
Sales by shipment destination:				
Canada	$ 104.0	$ 88.7	$ 13.9	$ 206.6
United States	759.3	256.7	37.8	1,053.8
Asia and Australasia	15.6	106.0	201.0	322.6
Latin America	38.5	78.0	55.4	171.9
Europe and other	1.0	0.4	126.2	127.6
	$ 918.4	$ 529.8	$ 434.3	$ 1,882.5

The accompanying notes are an integral part of the consolidated financial statements.

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Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

1. Nature of operations

Catalyst Paper Corporation, together with its subsidiaries and partnerships (collectively, the "Company") is a significant specialty mechanical printing papers and newsprint producer in North America. The Company operates in three business segments.

Specialty printing papers	o Manufacture and sale of mechanical specialty printing papers.
Newsprint	o Manufacture and sale of newsprint.
Pulp	o Manufacture and sale of long-fibre Northern Bleached Softwood Kraft ("NBSK") pulp (prior to November 18, 2008, pulp segment included manufacture of short-fibre NBSK pulp and white top linerboard)

The Company manages its business based on the products that it manufactures and sells to customers. Five manufacturing facilities, including a paper recycling facility, are located in the province of British Columbia, Canada and one manufacturing facility is located in Arizona, U.S.A. Inter-segment sales consist of pulp transfers at cost.

The primary market for the Company's paper products is North America. The primary markets for the Company's pulp products are Asia and Australasia, and Europe.

Effective January 1, 2008, the Company renamed its specialty paper segment "Specialty Printing Papers" to better reflect the nature of the Company's specialty paper products. The name change had no impact on the segment financial information.

2. Summary of significant accounting policies

The consolidated financial statements of the Company are expressed in millions of Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These financial statements differ in certain respects from those prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). The significant measurement differences are described in note 30, "Reconciliation of Canadian and United States generally accepted accounting principles".

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and, from their respective dates of acquisition of control or formation, its wholly owned subsidiaries and partnerships. In addition, the consolidated financial statements include the accounts of the Company's joint venture, Powell River Energy Inc. ("PREI"), a variable interest entity. All inter-company transactions and amounts have been eliminated on consolidation.

(b) Variable interest entities

Variable interest entities ("VIE") are entities in which equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. The Company consolidates the accounts of VIEs where it has been determined that the Company is the primary beneficiary, defined as the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's expected losses.

(c) Changes in accounting policies

On January 1, 2008, the Company adopted the following new recommendations of the Canadian Institute of Chartered Accountants ("CICA"):

Handbook Section 3031, "Inventories", provides more guidance on the measurement and disclosure requirements for inventories. Significantly to the Company, the new recommendations require raw materials to be recorded at the lower of cost or net realizable value ("NRV") with NRV determined on an as converted to finished goods basis for all raw materials to be used in the production of finished goods, allow the reversals of previous write-downs to NRV when there is a subsequent increase in the value of inventories and include more detailed guidance on the classification of spare parts between inventories and capitalized equipment. The Company adopted this standard with a prospective application.

Upon adoption of this standard, the Company recorded a write-down of $3.8 million to opening raw materials inventory and adjusted its opening balances of retained earnings by $2.6 million, net of taxes. In addition, the Company reclassified $5.7 million of its maintenance spare parts inventory from "Inventories" to "Property, plant and equipment" on the balance sheet.

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Handbook Section 1535, "Capital Disclosures" establishes guidelines for the disclosure of information related to an entity's objectives, policies and processes for managing capital, quantitative data on what the entity regards as capital and whether the entity has complied with any capital requirement and, if it has not complied, the consequences of such non-compliance (note 3).

Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" enhance existing disclosures in previously issued Section 3861, "Financial Instruments – Disclosures and Presentation". The new recommendations under Section 3862, "Financial Instruments – Disclosures" require additional disclosures, relative to those previously required, with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the balance sheet date, and how the entity manages those risks (note 24(a)).

During 2008, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation". The revision to this section provides additional guidance related to management's assessment of the Company's ability to continue as a going concern. This revision is effective for fiscal years beginning on or after January 1, 2008. The standard did not have a material impact on the Company's consolidated financial statements.

On January 1, 2007, the Company adopted the new recommendations of CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", Section 1530, "Comprehensive Income", Section 3865, "Hedges", Section 3861, "Financial Instruments – Disclosure and Presentation", and Section 3251, "Equity". These new standards, which applied to fiscal years beginning on or after October 1, 2006, introduced new requirements for recognition, measurement and disclosure of financial instruments, when and how hedge accounting may be applied, established the concept of comprehensive income and rules for reporting it, and established rules for the presentation of equity and changes in equity. Prior period financial statements were not revised for the adoption of these new standards. The adoption of these standards resulted in the Company recording on its balance sheet, at fair value, certain revenue and interest rate derivative financial instruments that were previously off balance sheet and the reclassification of its deferred financing costs against long-term debt. This resulted in the adjustment of $2.3 million, net of taxes, to the opening balances of retained earnings on January 1, 2007.

For the year ended December 31, 2008, the Company early adopted the new recommendations of the CICA Emerging Issues Committee as described in Abstract 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This Abstract clarifies that the Company must consider its own credit risk and the credit risk of a counterparty in the determination of the fair value of derivative instruments. The Company adopted this standard effective January 1, 2008 and it had no material effect on opening balances.

(d) Use of estimates

The consolidated financial statements have been prepared in conformity with Canadian GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. On an ongoing basis, management reviews its estimates, including those related to inventory obsolescence, estimated useful lives of assets, environmental and legal liabilities, impairment of long-lived assets, pension and post-retirement benefits, bad debt and doubtful accounts and income taxes, based on currently available information. Actual amounts could differ from estimates.

(e) Revenue recognition

The Company recognizes revenues upon shipment when the significant risks and rewards of ownership are transferred to the customer and collection is reasonably assured. Title to products is typically transferred to the customers at the time of shipment, and payment is based on agreed prices and credit terms contained in sales invoices. Customers have no contractual right of return.

(f) Translation of foreign currencies

The majority of the Company's sales are denominated in foreign currencies, principally U.S. dollars. Revenue and expense items denominated in foreign currencies are translated at exchange rates prevailing during the period. Monetary assets and liabilities denominated in foreign currencies are translated at the period-end exchange rates. Non-monetary assets and liabilities are translated at exchange rates in effect when the assets are acquired or the obligations are incurred. Foreign exchange gains and losses are reflected in net earnings (loss) for the period.

The Company has a foreign subsidiary that is considered to be self-sustaining. Accordingly, the foreign exchange gains and losses arising from the translation of the foreign subsidiary's accounts into Canadian dollars are reported as a component of other comprehensive income, as discussed in note 6.

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(g) Derivative financial instruments

The Company uses derivative financial instruments in the management of foreign currency, and price risk associated with its revenues, energy costs and long-term debt. It also uses interest rate swaps to manage its net exposure to interest rate changes. The Company's policy is to use derivatives for managing existing financial exposures and not for trading or speculative purposes. The Company accounts for its derivatives at fair value at each balance sheet date. Prior to January 1, 2007, the Company used hedge accounting to account for the derivative financial instruments designated as hedging instruments, and the fair value method to account for derivative financial instruments not designated as hedging instruments.

The Company designates the hedge relationship and formally documents at its inception, the particular risk management objective and strategy, the specific asset, liability or cash flow being hedged, as well as how effectiveness is assessed. Risk management strategies and relationships are assessed on an on-going basis to ensure each derivative instrument is effective in accomplishing the objective of offsetting either changes in the fair value or cash flow attributable to the exposure being hedged both at inception and over the term of the hedging relationship.

Realized and unrealized gains or losses associated with hedging instruments are recognized in earnings in the same period the hedge item is recognized. Realized and unrealized gains or losses when hedging instruments have ended or ceased to be effective prior to their maturity are deferred and recognized in earnings concurrently with the recognition of the item being hedged.

Foreign exchange exposure to foreign currency revenue and related receivables, primarily in U.S. currency, is managed through the use of foreign exchange forward contracts and options to sell foreign currencies. Realized foreign exchange translation gains and losses from transactions formally designated as hedges are recognized concurrently with the hedged revenue in "Sales". The effective portion of changes in the fair value of derivatives that qualify and are designated as cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income ("AOCI") until the underlying transaction is recorded in earnings. When the hedged item affects earnings, the gain or loss is reclassified from AOCI to "Sales". Any ineffective portion of a hedging derivative's change in fair value and the portion that is excluded from the assessment of hedge effectiveness is recognized immediately in "Sales".

Price risk associated with the sale of products, primarily NBSK pulp, is managed from time to time through the use of commodity swap agreements. These contracts are not designated as hedging instruments for accounting purposes, and are reported at fair value in "Prepaids and other" or "Accounts payable and accrued liabilities" on the consolidated balance sheet. Changes in fair value are recognized in "Sales".

Price risk associated with the purchase of certain inputs, primarily oil and gas, is managed from time to time through the use of commodity swaps. These instruments are not designated as hedges for accounting purposes and are reported at their fair value in "Prepaids and other" or "Accounts payable and accrued liabilities" on the consolidated balance sheet. Changes in fair value are recognized in "Cost of sales".

Foreign currency exposure on long-term debt denominated in U.S. currency is managed through the use of forward contracts and options to purchase U.S. dollars. The Company has designated a portion of its foreign currency denominated long-term debt as an effective hedge of its self-sustaining subsidiary. Gains and losses on translation of such debt into Canadian dollars are deferred in a separate component of shareholders' equity to be recognized in net earnings when there is a reduction in the net investment in the subsidiary. The fair values of these instruments are reported under "Other assets" or "Other long-term obligations" on the consolidated balance sheet at their fair value. Changes in fair value on instruments that are not designated as hedges are recognized in "Foreign exchange gain (loss) on long-term debt", offsetting the respective translation gains and losses on the underlying foreign currency long-term debt.

Exposure to interest rates on long-term debt is managed through the use of interest swaps. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. These instruments are designated as fair value hedging instruments. The effective portion of changes in the fair value of the derivatives are netted in "long-term debt" and the ineffective portion is recognized in "Interest expense, net".

Cash flows from derivative financial instruments that are designated as hedges and for which hedge accounting does not apply are classified, in general, to "Operations" on the consolidated statement of cash flows consistent with the hedged transaction. Cash flows resulting from termination of interest rate swaps are classified as investing activities.

Notes to Consolidated Financial Statements

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(h) Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of less than three months and are presented at fair value.

(i) Inventories

Specialty printing papers, newsprint and pulp inventories are valued at the lower of average cost or net realizable value. Wood chips, pulp logs and other raw materials are valued at the lower of cost or net realizable value. For all raw materials to be used in the production of finished goods, net realizable value is determined on an as converted to finished goods basis (note 2(c)). Work-in-progress and operating and maintenance supplies and spare parts inventories are valued at cost.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated amortization, including asset impairment charges. Interest costs are capitalized for capital projects in excess of $10 million and having a minimum duration of six months. Buildings, machinery and equipment are generally amortized on a straight-line basis at rates that reflect estimates of the economic lives of the assets. The rates for major classes of assets based on the estimated remaining economic lives are:

Buildings	2.5% – 5.0%
Paper machinery and equipment	5.0% – 10.0%
Pulp machinery and equipment	10.0% – 20.0%

During periods of major production interruption on assets with economic lives greater than five years, an obsolescence amount of 50% of normal amortization is charged on manufacturing machinery and equipment.

No amortization is charged on capital projects during the period of construction. Start-up costs incurred in achieving normal operating capacity on major capital projects are deferred and amortized over a five-year period.

Leasehold improvements are normally amortized over the lesser of their expected average service life and the term of the lease.

When property, plant and equipment are sold by the Company, the historical cost less accumulated amortization is netted against the sale proceeds and the difference is included in "Other income (expense), net".

(k) Impairment of long-lived assets

Long-lived assets are tested for recoverability when events or changes in circumstances indicate their carrying value may not be recoverable. A long-lived asset is potentially not recoverable when its carrying value is greater than the sum of the undiscounted cash flows expected to result from its use and eventual disposition. The impairment loss, if any, is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value.

(l) Environmental costs

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures that prevent future environmental contamination are capitalized as part of "Property, plant and equipment", and amortization is subsequently charged to earnings over the estimated future benefit period of the assets. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded on an undiscounted basis when rehabilitation efforts are likely to occur and the costs can be reasonably estimated.

(m) Asset retirement obligations

Asset retirement obligations are recognized at fair value in the period in which the Company incurs a legal obligation associated with the retirement of an asset. The associated costs are capitalized as part of the carrying value of the related asset and amortized over its remaining useful life. The liability is accreted using a credit-adjusted risk-free interest rate.

The Company's obligations for the proper removal and disposal of asbestos products in its mills meet the definition of a conditional asset retirement obligation. That is, the Company is subject to regulations that are in place to ensure that asbestos fibres do not become friable, or loose. The regulations require that friable asbestos be repaired or removed in accordance with the regulations.

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The Company's asbestos can generally be found on steam and condensate piping systems throughout its facilities, as well as in transite cladding on buildings and in building insulation. As a result of the longevity of the Company's mills, due in part to the Company's maintenance procedures, and the fact that the Company does not have plans for major changes that would require the removal of asbestos, the timing of the removal of asbestos in the Company's mills is indeterminate. As a result, the Company is currently unable to estimate the fair value of its asbestos removal and disposal obligation.

(n) Research and development

Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for deferral. Deferred development costs are amortized over the life of the commercial production.

(o) Deferred financing costs

Deferred financing costs represent the issuance costs of the Company's long-term debt. Deferred costs related to the Company's senior notes are netted against the carrying value of long-term debt on the consolidated balance sheet and amortized using the effective interest rate method over the expected life of the related liability. Deferred costs related to the Company's revolving asset based facility are included in "Other assets".

(p) Share issue costs

Direct costs of issuing shares, net of income tax recoveries thereon, are applied to reduce the value of consideration assigned to such shares.

(q) Stock-based compensation and other stock-based payments

Stock options and restricted share units granted to the Company's key officers, directors and employees are accounted for using the fair value-based method. Under this method, compensation cost is measured at fair value at the date of grant, and is expensed over the award's vesting period. Any consideration paid by plan participants on the exercise of share options or the purchase of shares is credited to "Share capital" together with any related stock-based compensation expense. Performance and time based share-based payments are amortized over their vesting periods based on management's best estimate.

Deferred share units are accounted for using the quoted market value at each reporting period until settlement, and are amortized over their vesting periods.

(r) Income taxes

Income taxes are accounted for using the asset and liability method. Future income tax assets and liabilities are based on temporary differences (differences between the accounting basis and the tax basis of the assets and liabilities) and non-capital loss carry-forwards and are measured using the enacted or substantively enacted tax rates and laws expected to apply when these differences reverse. Future tax benefits, including non-capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that substantive enactment occurs.

(s) Deferred credits

Deferred credits represent the excess of amounts assigned to future income tax assets for tax losses acquired in other than business combinations over the consideration paid. Deferred credits are amortized to "Income tax recovery" in the consolidated statement of earnings during the period that the acquired tax asset is utilized.

(t) Employee future benefits

Pensions and other employee future benefits

The estimated cost for pensions and other employee future benefits provided to employees by the Company is accrued using actuarial techniques and assumptions during the employees' active years of service. These plans include funded and unfunded defined benefit plans and defined contribution plans. The net periodic benefit cost includes:

- the cost of benefits provided in exchange for employees' services rendered during the year;
- the interest cost of benefit obligations;
- the expected long-term return on plan assets based on the fair value for all asset classes;
- gains or losses on settlements or curtailments;

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- the straight-line amortization of past service costs and plan amendments over the average remaining service period of the active employee group covered by the plans as of the date such costs are first recognized, unless all, or almost all, of the employees are no longer active, in which case such costs are amortized over the average life expectancy of the former employees (amortized over 5 years for periods prior to December 31, 2008); and
- the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year over the average remaining service period of the active employee group covered by the plans, unless all, or almost all, of the employees are no longer active, in which case such costs are amortized over the average life expectancy of the former employees (amortized over 5 years for periods prior to December 31, 2008).

The defined benefit plan obligations are determined in accordance with the projected benefit method prorated on services.

(u) Earnings per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) for the period by the weighted average shares outstanding during the reporting period. Diluted earnings (loss) per share is computed using the treasury stock method. When the effect of options and other securities convertible into common shares is anti-dilutive, including when the Company has incurred a loss for the period, basic and diluted loss per share are the same.

(v) Comparative figures

Certain comparative figures disclosed in the consolidated financial statements have been reclassified to conform with the presentation adopted for the current year.

3. Capital structure management

The Company's objectives when managing capital are to efficiently provide for the funding of ongoing operations, interest payments and capital expenditures, while ensuring adequate liquidity and solvency. The Company aims to minimize its cost of capital while achieving a selected capital structure and credit rating, providing a platform to effectively fund new growth initiatives, and ensuring flexibility in raising capital from multiple sources and markets.

The Company's capital structure consists of net debt, shareholders' equity and cash availability through a revolving asset based loan facility. The Company makes adjustments to the capital structure depending on economic conditions and the financial position and performance of the Company. In order to maintain or adjust the capital structure, the Company may issue new shares, buy back shares or pay dividends (provided the Company is compliant with its debt covenants), issue new debt, refinance or buy back existing debt, and sell assets to reduce debt.

The Company monitors its capital structure in a number of ways with its target requirements being as follows: (i) net debt to net capitalization of 35-45%, (ii) ratio of net debt to trailing twelve months EBITDA (defined as earnings before interest, taxes, depreciation and amortization, and before specific items) of less than 5.0:1 through a business cycle, (iii) interest coverage (defined as trailing twelve months EBITDA divided by interest) of greater than 2.5:1. These targets for net debt to EBITDA and interest coverage ratios are those that the Company believes are necessary to achieve a minimum BB/Ba2 corporate credit rating. The Company also targets re-investment hurdles on capital expenditures of one to three year payback depending on liquidity and outlook. Net debt comprises total debt less cash on hand. Net capitalization comprises net debt and shareholders' equity. EBITDA is a non-GAAP measure whose nearest GAAP measure is net income.

At December 31, 2008, the Company's net debt to net capitalization was 52.3% (December 31, 2007 – 44.2%), net debt to trailing twelve months EBITDA was 5.0:1 (December 31, 2007 – 6.7:1) and interest coverage was 2.5:1 (December 31, 2007 – 1.6:1). The acquisition of the Snowflake mill on April 10, 2008 (note 6), was funded through a combination of an equity rights offering of $121.1 million, net of share issue costs, and a draw on the Company's revolving operating facility. The Company is currently meeting its capital structure targets with respect to net debt to EBITDA and interest coverage. However, the target for net debt to net capitalization is not being met as at December 31, 2008.

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4. Measurement uncertainty – impairment of long-lived assets

The Company reviews long-lived assets, primarily plant and equipment, for impairment when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The Company tests for impairment using a two-step methodology:

(i) Determine whether the projected undiscounted future cash flows from operations exceed the net carrying amount of the assets as of the assessment date, and

(ii) If assets are determined to be impaired in step (i), then such impaired assets are written down to their fair value, determined principally by using discounted future cash flows expected from their use and eventual disposition.

Estimates of future cash flows and fair value require judgments, assumptions and estimates and may change over time. Due to the variables associated with judgments and assumptions used in these tests, the precision and accuracy of estimates of impairment charges are subject to significant uncertainties and may change significantly as additional information becomes known. The carrying value of long-lived assets represented approximately 76% of total assets as at December 31, 2008. If future developments were to differ adversely from management's best estimate of key assumptions and associated cash flows, the Company could potentially experience future material impairment charges.

In the fourth quarter of 2008, as a result of a slowdown in the global economy resulting in a decline in demand for the Company's products, the Company conducted step (i) impairment tests on its paper and pulp assets. Estimates of future cash flows used to test the recoverability of long-lived assets included key assumptions related to foreign exchange rates, forecast prices, estimated useful life of the long-lived assets, production levels, production costs, market supply and demand, inflation, weighted average cost of capital, and capital spending. The assumptions are derived from information generated internally, independent industry research firms, and other external published reports and forecasts. The useful life of the Company's assets was estimated at 20 years for paper assets and 10 years for pulp assets. Product sales prices and foreign exchange assumptions for 2009 of CDN$1.00 = US$0.90 were based on management's best estimates incorporating independent market information as well as analysis of historical data, trends and cycles. Product sales prices and foreign exchange assumptions for years 2010 to 2013 were based on forecasts prepared by Resource Information Systems Inc. ("RISI"), an independent external firm. The foreign exchange assumption was CDN$1.00 = US$0.85 in 2010 declining to CDN$1.00 = US$0.78 by 2013. Product sales prices and foreign exchange rate assumptions for 2014 and subsequent years were estimated by management based on long-term trend pricing for product sales prices and a long term expected foreign exchange rate of CDN$1.00 = US$0.88. In addition to the impairment test conducted using RISI and long-term trend assumptions for the years 2010 and beyond, the Company also prepared a second analysis applying significant discounts to the RISI and trend assumptions. In this second analysis, the foreign exchange assumption was CDN$1.00 = US$0.90 for all years and average product pricing was reduced by 7% to 18% in the years 2010 to 2012 when compared to RISI pricing assumptions. In addition, volume assumptions were reduced in each year. In this second analysis, the 5-year average results for 2008 to 2012 were then applied to each subsequent year of the useful life of the assets. The Company concluded that an impairment charge for the pulp and paper assets, other than the exceptions noted below, was not required as at December 31, 2008 as the estimated undiscounted cash flows in both cases exceeded the carrying values.

During 2008, the Company recorded an impairment charge of $136.4 million on assets related to its Elk Falls pulp mill and white top linerboard operation, of which $129.0 million related to property, plant and equipment and $7.4 million related to supplies and spare parts inventory. The Elk Falls pulp mill and white top linerboard operation was permanently closed on November 18, 2008 as a result of the ongoing unavailability of sawdust fibre. In addition, the Company also recorded a $14.6 million asset impairment charge in 2008 on certain specific mill assets that are no longer in use or where the net realizable value has decreased due to the current weak economic environment.

The Company's No. 1 paper machine in Elk Falls ("E1") was curtailed throughout 2008. The Company has not recorded an impairment for the indefinite curtailment. The Company is monitoring market and other conditions and will assess whether they improve sufficiently to allow this machine to be placed back into production. To the extent that conditions do not improve in a reasonable period of time and to the levels necessary to restart the machine, a write-down may result in the future. As at December 31, 2008, the net book value of E1 and ancillary assets was approximately $25 million.

On January 20, 2009, the Company announced the indefinite curtailment of its No. 1 paper machine in Crofton ("C1") effective February 1, 2009 until market conditions improve. As at December 31, 2008, the Company has not recorded an impairment for the indefinite curtailment. The net book value of C1 and ancillary assets was approximately $12 million at December 31, 2008.

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In 2006, the Company recorded an impairment loss of $23.4 million, of which $19.1 million related to the permanent closure of its Port Alberni No. 3 paper machine and ancillary assets, and $4.3 million related to assets that were previously idled and where the Company determined the assets would not be used again in the future. The estimated fair value of these assets was based on the present value of the estimated asset proceeds net of dismantling and selling costs.

5. Variable interest entities

The Company has a 50.0% interest in Powell River Energy Inc. ("PREI"). The Company consolidates 100% of PREI in accordance with Accounting Guideline 15, "Consolidation of Variable Interest Entities". PREI consists of an integrated hydroelectric power generating, transmission and distribution system which includes two hydroelectric stations in British Columbia with installed capacity of 82 Megawatts. The Company purchases 100% of the power generated by PREI. Prior to January 1, 2005, PREI was accounted for using the proportionate consolidation method.

The Company has limited access to PREI's assets, which generally takes the form of interest on loans, management fees and earnings distributions based on the Company's interest in PREI. In addition, creditors of PREI have recourse limited to the assets in PREI. Condensed financial information with respect to PREI is as follows:

Years ended December 31	2008	2007	2006
Condensed statement of earnings			
Sales – affiliate [1]	$ 18.6	$ 19.2	$ 19.6
Cost of sales	4.9	5.1	5.3
Amortization	3.2	3.3	2.9
	8.1	8.4	8.2
Operating earnings	10.5	10.8	11.4
Interest expense	(7.7)	(8.2)	(8.1)
Interest expense – affiliate [1]	(2.7)	(3.1)	(3.1)
Other expense, net	0.5	(4.2)	(0.3)
Income tax recovery	1.0	4.9	3.0
Net earnings [2]	$ 1.6	$ 0.2	$ 2.9

At at December 31	2008	2007
Condensed balance sheets		
Current assets	$ 3.5	$ 3.8
Property, plant and equipment	115.6	118.2
	$ 119.1	$ 122.0
Current liabilities		
Accounts payable and accrued liabilities	$ 15.3	$ 17.4
Current portion of long-term debt (note 18)	74.9	0.5
Long-term debt (note 18)	19.5	94.1
Long-term debt – affiliate [1]	21.5	21.5
Future income taxes	19.7	20.7
Shareholders' deficit [2]	(31.8)	(32.2)
	$ 119.1	$ 122.0

1 Balances with Catalyst Paper Corporation.

2 50% is included in the Company's non-controlling interest balances.

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The Company has identified one other potential VIE, but has not been able to obtain the financial information necessary to evaluate whether the entity is a VIE, or if the entity is a VIE, whether the Company is the primary beneficiary. The Company has entered into a building lease agreement with this potential VIE whereby the Company has agreed to continue making the prescribed lease payments directly to the financial institution holding the mortgage on the building in the event the lessor is no longer able to meet its contractual obligations. As at December 31, 2008, the principal amount of the mortgage was $9.6 million (2007 – $10.6 million). This agreement does not increase the Company's liability beyond the obligation under the building lease.

6. Acquisition of Snowflake recycle newsprint mill

On April 10, 2008, the Company completed the acquisition of a recycled newsprint mill in Snowflake, Arizona. Cash consideration paid was $169.8 million and was financed, in part, through a rights offering resulting in the issuance of 167,069,361 Subscription Receipts and proceeds of $121.1 million, net of share issue costs. The balance of the purchase price for the acquisition was funded by drawings of $48.7 million under the Company's revolving operating facility. Under the rights offering, each holder of record of the Company's common shares as of the close of business on the record date of March 11, 2008 received one Right for each common share held. Each 1.285 Rights entitled the holder to purchase one Subscription Receipt of the Company for an exercise price of $0.75 per Subscription Receipt. Each Subscription Receipt was converted into one fully paid common share of the Company concurrent with the closing of the Snowflake acquisition.

The acquisition has been accounted for using the purchase method of accounting. The following amounts have been assigned to the assets and liabilities acquired, based on an estimate of their fair value as at April 10, 2008, and are subject to revision for twelve months from the date of the acquisition:

Assets acquired	
Current assets	$ 18.1
Property, plant and equipment	169.7
Other assets	0.5
	188.3
Liabilities assumed	
Current liabilities	(18.1)
Employee future benefits	(0.4)
Fair value of net assets acquired	$ 169.8
Consideration paid	
Cash, including transaction costs	$ 169.8

The Company's Snowflake mill is financially and operationally self-sustaining. Accordingly, the current rate method is used for the translation of its financial statements to Canadian dollars upon consolidation. Under this method, the assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate in effect during the period. Exchange gains and losses arising from the current rate method of translation are deferred in a separate component of accumulated other comprehensive income in shareholders' equity. Such gains and losses will be included in the determination of net earnings when there is a reduction in the net investment in the foreign subsidiary as a result of a dilution or sale of part or all of the Company's interest in the foreign subsidiary or as a result of capital transactions including dividend distributions and capital restructuring.

The Company has designated a portion of its foreign currency denominated long-term debt as an effective hedge of its self-sustaining foreign subsidiary. Upon translation of such debt into Canadian dollars, any gains or losses are also deferred in a separate component of shareholders' equity to be recognized in net earnings when there is a reduction in the net investment in the subsidiary.

The foreign exchange translation adjustment account reflects the net changes in the respective book values of the Company's investment in Snowflake due to exchange rate fluctuations since the date of acquisition. Included in the accumulated other comprehensive income in shareholders' equity at December 31, 2008 was a net foreign exchange gain of $29.3 million, net of tax, related to the revaluation of the debt during the period of hedge effectiveness.

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

7. Restructuring and change-of-control costs

The Company's restructuring and change-of-control expenses and related provisions at December 31 were as follows:

Years ended December 31,	2008	2007
Balance, beginning of year	$ 28.1	$ –
Expensed in year	30.1	64.7
Disbursements	(23.6)	(23.6)
Other non-cash items	–	(0.4)
	34.6	40.7
Less: portion related to employee future benefits	(18.3)	(12.6)
Balance, end of year	$ 16.3	$ 28.1
Classification:		
Accounts payable and accrued liabilities (note 17)	14.0	20.0
Other long-term obligations (note 20)	2.3	8.1
	$ 16.3	$ 28.1

2008

In February 2008, the Company reached new labour agreements at its Port Alberni mill, resulting in significant workforce reductions and related early retirement and severance payments. The agreements have a five-year term, expiring April 2013, and included a commitment by the Company to a $12 million capital upgrade on the thermo-mechanical pulp facility at the mill, and the restart, by mid-year, of its Port Alberni No. 4 paper machine, which had been idled indefinitely since September 2007. The capital upgrade is expected to be completed by May 2009. For the year ended December 31, 2008, the Company recorded $14.6 million in restructuring costs related to the early retirement and severance program. Restructuring expenses were recorded in accordance with the Emerging Issues Committee Abstract No. 134, "Accounting for Severance and Termination Benefits".

In April 2008, the Company announced the indefinite curtailment of Elk Falls paper machine No. 1 due to fibre shortages. The indefinite curtailment of E1, which was initially temporarily curtailed in September 2007 due to lack of fibre resulting from the strike by coastal loggers in British Columbia, resulted in a reduction of approximately 145 employees at Elk Falls, the majority through layoffs. At the same time, the Company also announced manning reductions of 82 positions at its Crofton mill as the mill took steps to improve its overall cost structure. Costs associated with these restructuring programs are expected to be approximately $4 million. The Company recorded net restructuring costs of $0.4 million in 2008 associated with these and prior initiatives.

In November 2008, the Company permanently closed its sawdust pulp and white top linerboard operation at its Elk Falls mill due to an ongoing unavailability of sawdust fibre. This closure resulted in removing 200,000 tonnes of annual sawdust pulp and 131,000 tonnes of annual white top linerboard capacity. Total severance costs associated with this closure are estimated to be approximately $21 million. The Company recorded severance related restructuring costs of $15.1 million and an asset impairment charge of $136.4 million in 2008 in connection with this closure.

2007

In 2007, the Company announced and implemented, in various phases during the year, a restructuring program which included reductions of approximately 565 positions across the Company, the relocation of the corporate office, and the centralization of certain mill administrative functions. This plan was substantially completed during 2007 and the Company incurred $58.3 million of restructuring costs, of which $3.0 million was capital related.

In 2007, the Company also expensed $8.3 million for change-of-control payments, pension benefits and stock compensation to the former President and Chief Executive Officer, and the former Vice-President, Finance and Chief Financial Officer, who exercised their rights under change of control agreements and resigned their positions. These rights were triggered upon the acquisition by Third Avenue Management LLC of control or direction over 37.8% of the Company's common shares in October, 2006. In addition, the Company expensed $1.1 million in change-of-control costs related to employee retention agreements that required certain key employees to remain actively employed by the Company for one year following a change-of-control.

Notes to Consolidated Financial Statements
Amounts expressed in millions of dollars, except where otherwise stated

8. Interest expense, net

The components of interest expense, net, for the years ended December 31 were as follows:

	2008	2007	2006
Interest on long-term debt	$ 78.0	$ 71.7	$ 75.4
Fixed-to-floating interest rate swaps	(2.9)	–	(1.2)
Other	0.3	0.1	0.9
	75.4	71.8	75.1
Capitalized interest	(0.1)	(0.2)	–
Interest income	(0.3)	(0.9)	(1.3)
	$ 75.0	$ 70.7	$ 73.8

9. Other income (expense), net

The components of other income (expense), net, for the years ended December 31 were as follows:

	2008	2007	2006
Termination fee on closure of corrugating machine at Snowflake	$ 2.0	$ –	$ –
Gain (loss) on disposal of property, plant and equipment	0.4	(13.6)	1.1
Financing expenses	–	(1.2)	–
Other	0.1	(0.5)	0.7
	$ 2.5	$ (15.3)	$ 1.8

10. Income taxes

The components of income tax recovery for the years ended December 31 were as follows:

	2008	2007	2006
Current	$ 1.7	$ 0.7	$ 2.1
Future	(86.6)	(78.3)	(33.2)
Release of future taxes related to reduction in corporate income tax rates	(6.9)	(22.4)	(22.9)
	$ (91.8)	$ (100.0)	$ (54.0)

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision for the years ended December 31 was as follows:

	2008		2007		2006	
Income tax recovery at Canadian statutory income tax rates	$ (96.8)	*31.0%*	$ (44.7)	*34.0%*	$ (23.3)	*34.1%*
Increase (decrease) in income taxes for:						
Non-taxable income and expenses	13.8	*(4.4)*	(14.9)	*11.3*	0.8	*(1.2)*
Difference in foreign tax rate	(4.3)	*1.4*	(1.7)	*1.3*	(1.8)	*2.6*
Release of future income taxes related to reduction in corporate income tax rates	(6.9)	*2.2*	(22.4)	*17.0*	(22.9)	*33.5*
Change in the future income tax estimate	–	–	(14.4)	*11.0*	(4.5)	*6.6*
Adjustment to deferred credits	(2.7)	*0.8*	(2.3)	*1.7*	1.0	*(1.4)*
Large corporations tax	–	–	–	–	(0.3)	*0.4*
Other	5.1	*(1.6)*	0.4	*(0.3)*	(3.0)	*4.4*
Income tax recovery	$ (91.8)	*29.4%*	$ (100.0)	*76.0%*	$ (54.0)	*79.0%*

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

The tax effects of temporary differences that give rise to significant future tax assets were as follows at December 31:

	2008	2007
Future income tax assets		
Non-capital losses and temporary differences related to working capital	$ 21.7	$ 5.0
Employee future benefits	4.5	0.6
	26.2	5.6
Valuation allowance	–	(1.9)
	$ 26.2	$ 3.7
Classification:		
Prepaids and other (note 14)	$ 26.2	$ –
Other assets (note 16)	–	3.7
	$ 26.2	$ 3.7

The tax effects of temporary differences that give rise to significant future tax liabilities were as follows at December 31:

	2008	2007
Future income tax liabilities		
Property, plant and equipment	$ 184.2	$ 229.2
Non-capital loss carry-forwards	(79.7)	(77.0)
Employee future benefits	(50.7)	(54.2)
Other	8.3	54.0
	62.1	152.0
Valuation allowance	4.7	2.2
	$ 66.8	$ 154.2

11. Earnings per share

The following table provides the reconciliation between basic and diluted earnings (loss) per share:

	2008	2007	2006
Net earnings (loss) reported	$ (221.1)	$ (31.6)	$ (15.9)
Weighted average shares used in computation of basic earnings per share (in millions)	336.1	214.7	214.6
Weighted average shares from assumed conversion of dilutive options (in millions)	–	–	–
Weighted average shares used in computation of diluted earnings per share (in millions)	336.1	214.7	214.6
Basic and diluted earnings (loss) per share (in dollars)	$ (0.66)	$ (0.15)	$ (0.07)

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

12. Accounts receivable

The components of accounts receivable at December 31 were as follows:

	2008	2007
Trade receivables	$ 206.6	$ 197.0
Less: Allowance for doubtful accounts	(3.2)	(2.8)
	203.4	194.2
Sales taxes receivable	3.0	8.3
Other receivables	15.3	10.6
	$ 221.7	$ 213.1

13. Inventories

The components of inventories at December 31 were as follows:

	2008	2007
Finished goods		
Specialty printing papers	$ 25.6	$ 40.6
Newsprint	8.7	10.3
Pulp	18.8	24.3
Total finished goods	53.1	75.2
Work-in-progress	1.7	1.5
Raw materials – wood chips, pulp logs and other	46.1	41.0
Operating and maintenance supplies and spare parts	110.5	118.0
	$ 211.4	$ 235.7

At December 31, 2008, the Company had applied write-downs of $2.7 million (2007 – $2.6 million) to finished goods inventory and $9.6 million (2007 – $nil) to raw materials inventory (note 2(c)). At December 31, 2008, inventory carried at NRV consisted of $18.8 million of pulp and white top linerboard finished goods inventory, of which $17.9 million related to pulp and $0.9 million related to white top linerboard. At December 31, 2007, inventory carried at NRV consisted of $40.7 million of finished goods paper inventory, of which $30.4 million related to specialty printing papers and $10.3 million related to newsprint.

For the year ended December 31, 2008, the Company recorded an expense of $5.9 million (2007 – $1.8 million, 2006 – $2.0 million reversal) related to the write-down of inventories to NRV. This comprised of a $12.3 million charge (2007 – $nil, 2006 – $2.8 million reversal) related to pulp inventory, and a reversal of $2.9 million (2007 – $0.5 million charge, 2006 – $0.8 million charge) and $3.5 million (2007 – $1.3 million charge, 2006 – $nil) related to specialty printing papers and newsprint inventories, respectively. The reversal of inventory write-downs was a result of improved NRVs for specialty printing papers and newsprint in 2008 compared to December 31, 2007.

14. Prepaids and other

The components of prepaids and other at December 31 were as follows:

	2008	2007
Future income tax assets (note 10)	$ 26.2	$ –
Derivative financial instruments	1.3	32.0
Property taxes, insurance and licences	2.1	3.7
Other	3.2	5.0
	$ 32.8	$ 40.7

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

15. Property, plant and equipment

The components of property, plant and equipment at December 31 were as follows:

2008	Cost	Accumulated amortization	Net book value
Buildings and land			
Specialty printing papers and newsprint	$ 556.4	$ 229.3	$ 327.1
Pulp	141.2	111.8	29.4
Machinery and equipment			
Specialty printing papers and newsprint	2,708.0	1,369.1	1,338.9
Pulp	862.3	705.7	156.6
	$ 4,267.9	$ 2,415.9	$ 1,852.0

2007	Cost	Accumulated amortization	Net book value
Buildings and land			
Specialty printing papers and newsprint	$ 464.9	$ 163.8	$ 301.1
Pulp	124.4	68.1	56.3
Machinery and equipment			
Specialty printing papers and newsprint	2,561.0	1,295.0	1,266.0
Pulp	885.4	596.0	289.4
	$ 4,035.7	$ 2,122.9	$ 1,912.8

During 2008, the Company recorded $151.0 million in asset impairment charges, of which $136.4 million related to assets at Elk Falls pulp mill and white top linerboard operations, and $14.6 million related to specific assets that were no longer in use or where the NRV has decreased. On a segmented basis, $136.7 million related to pulp assets, $2.5 million related to newsprint assets, and $11.8 million related to specialty printing papers assets.

During 2008, interest of $0.1 million (2007 – $0.2 million) was capitalized in connection with capital projects.

At December 31, 2008, a net carrying amount of $7.4 million (2007 – $8.3 million) included in machinery and equipment is held under capital leases, $10.0 million for cost (2007 – $10.4 million) and $2.6 million for accumulated amortization (2007 – $2.1 million).

16. Other assets

The components of other assets at December 31 were as follows:

	2008	2007
Accrued benefit asset – pension plan (note 19)	$ 31.0	$ 16.6
Derivative financial instruments	34.7	5.0
Non-controlling interest (note 5)	15.9	16.1
Deferred charges and other	13.8	13.4
Deferred financing costs	5.1	–
Future income tax assets (note 10)	–	3.7
	$ 100.5	$ 54.8

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

17. Accounts payable and accrued liabilities

The components of accounts payable and accrued liabilities at December 31 were as follows:

	2008	2007
Trade payables	$ 115.3	$ 135.7
Accrued payroll and related liabilities	66.9	74.9
Restructuring and change-of-control (note 7)	14.0	20.0
Accrued benefit obligation – pension plan (note 19)	7.3	5.5
Accrued benefit obligation – other employee future benefit plans (note 19)	6.7	6.7
Derivative financial instruments	30.2	0.2
Accrued interest	10.9	9.2
Other	18.1	16.0
	$ 269.4	$ 268.2

18. Long-term debt

The Company's long-term debt at December 31 was as follows:

	2008	2007
Recourse		
Senior notes, 8.625% due June 2011 (US$400.0 million)	$ 485.1	$ 388.9
Senior notes, 7.375% due March 2014 (US$250.0 million)	306.9	246.6
	792.0	635.5
Revolving asset based loan facility of up to $330.0 million due August 2013	60.1	–
Revolving operating facility of up to $350.0 million due July 2009	–	47.1
Capital lease obligations	12.2	8.6
	864.3	691.2
Non-recourse		
First mortgage bonds, 6.387% due July 2009	74.9	74.6
Subordinated promissory notes	19.5	19.5
Short-term loan payable	–	0.5
	94.4	94.6
Total debt	958.7	785.8
Less: Current portion	(75.8)	(1.2)
	$ 882.9	$ 784.6

On August 13, 2008, the Company replaced its $350.0 million revolving operating facility maturing 2009 with a new $330.0 million revolving asset based loan facility ("ABL Facility") maturing August 2013. The ABL Facility will provide for ongoing working capital and capital expenditure requirements as well as for general corporate purposes. Collateral provided consists of all accounts receivable, inventories and cash of the Company as well as a first charge on the property, plant and equipment of the Company's Snowflake mill. Availability under the ABL Facility is determined by a borrowing base calculated primarily on balances of eligible accounts receivable and inventories, less certain reserves.

Borrowings under the ABL Facility bear interest at a rate based on Canadian dollar banker's acceptance/prime or U.S. dollar LIBOR/base/prime rates, plus a margin that varies with the average excess availability on the ABL Facility. The interest rates on borrowings under the old and the new facilities averaged 5.8% in 2008 (2007 – 7.3%). A commitment fee at an applicable margin applies to the undrawn portion of the ABL Facility.

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The ABL Facility includes financial covenants to a) maintain shareholders' equity above $639.0 million as at December 31, 2008, b) maintain excess availability above $35 million and c) to not make capital expenditures in excess of 120% of the Company's annual budget. The minimum equity requirement is reduced by the amount of any non-cash write-downs of property, plant and equipment as a result of a permanent discontinuance of operations. At December 31, 2008, as calculated under the ABL Facility, shareholders' equity was $870.0 million (2007 – $988.6 million). The borrowing base at December 31, 2008 was $263.3 million and after drawings of $60.1 million, and outstanding letters of credit of $27.9 million, $175.3 million was available to the Company, in addition to cash on hand of $5.0 million.

The indentures and agreements governing the Company's senior notes contain customary restrictive covenants, including restrictions on incurring additional indebtedness, certain payments including dividends and investments in other persons, the creation of liens, sale and leaseback transactions, certain amalgamations, mergers, consolidations and the use of proceeds arising from certain sales of assets and certain transactions with affiliates. At December 31, 2008, the Company was in compliance with the covenants under both its ABL Facility and senior notes. The Company's Fixed Charge Coverage Ratio ("FCC Ratio") under the senior note indentures, calculated on a 12-month trailing average, was 2.1:1 at December 31, 2008 (December 31, 2007 – 0.8:1). While the FCC Ratio is below 2.0:1, the Company is limited in the amount of additional debt it may incur to "permitted debt" under the senior notes. Under the indenture for the 8.625% senior notes, "permitted debt" includes a) the Company's existing 8.625% notes and 7.375% notes, b) a credit facility basket in an amount equal to the greater of (i) $725 million and (ii) the sum of 75% of the book value of the Company's accounts receivable, 50% of the book value of the Company's inventory and $290 million, against which in either case utilization under the Company's $330 million ABL Facility is applied, c) purchase money debt and capital lease obligations in an amount equal to 5.0% of the Company's consolidated tangible assets, d) a $40 million general basket, and e) a $5 million basket for accommodation guarantees, trade or standby letters of credit, performance bonds, bankers' acceptances and surety bonds. The indenture for the 7.375% notes contains larger debt baskets, but while the 8.625% notes remain outstanding, the Company is bound by their more restrictive provisions. Also, the Company's restricted payments baskets under the 8.625% and 7.375% senior notes were negative $109.8 million and negative $84.8 million, respectively, as at December 31, 2008, as a result of accumulated losses in recent years (December 31, 2007 – negative $189.0 million and negative $164.0 million, respectively). Under the senior note covenants, the Company cannot pay dividends unless the balance in these baskets is positive.

Non-recourse debt is debt owed by PREI. The Company has a 50% interest in PREI, and consolidates 100% of it as PREI is a VIE in which the Company is the primary beneficiary. The Company has reclassified its non-recourse debt of $74.9 million to current liabilities on its balance sheet as at December 31, 2008. It is anticipated that PREI will refinance this debt prior to its maturity in July 2009.

Scheduled total debt repayments	Recourse debt	Non-recourse debt (PREI)
2009	$ 1.0	$ 75.0
2010	1.0	–
2011	490.9	–
2012	4.0	–
2013	64.0	–
Thereafter	307.5	19.5
	$ 868.4	$ 94.5

Fair value of total debt

The following estimated fair values of the Company's total debt at December 31 have been determined based on management's best estimate of the fair value to refinance debt with similar terms at the respective year-end dates:

	2008	2007
Recourse	$ 414.3	$ 573.9
Non-recourse (PREI)	95.8	96.5
	$ 510.1	$ 670.4

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19. Employee future benefits

Description of benefit plans

The Company maintains pension benefit plans for all salaried employees, which include defined benefit and defined contribution segments. Employees hired subsequent to January 1, 1994, enroll in the defined contribution segment.

The defined benefit segment provides a pension based on years of service and earnings. For the defined contribution segment, the Company's contributions are based on a percentage of an employee's earnings with the Company's funding obligations being satisfied upon crediting contributions to an employee's account.

The Company also maintains pension benefits for former hourly employees that are not covered by union pension plans.

The Company provides other benefit plans consisting of provincial medical plan premiums, extended health care and dental benefits to eligible retired employees and their dependents. Assumed health care trend rates have a significant effect on the amounts reported for the post-retirement medical plans.

Total cash payments

Total cash payments for employee future benefits for the year ending December 31, 2008, consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded benefit plans and cash contributed to its defined contribution plans, was $38.9 million (2007 – $36.2 million).

Unionized employees of the Company are members of multi-employer industry-wide pension plans to which the Company contributes a predetermined amount per hour worked by an employee. The pension expense for these plans is equal to the Company's contribution of $15.5 million in 2008 (2007 – $17.2 million; 2006 – $18.0 million).

Defined benefit plan

The Company measures the fair value of plan assets and the accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the majority of pension plans for funding purposes was as of December 31, 2007, and the next required valuation will be as of December 31, 2010.

Change in accrued defined benefit plan obligation

The following table represents the change in the accrued benefit obligation as determined by independent actuaries:

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Accrued benefit obligations at beginning of year	$ 375.8	$ 376.5	$ 219.4	$ 227.6
Service cost for the year	5.2	5.3	4.6	5.1
Interest cost	19.3	18.2	11.5	11.4
Employee contributions	0.5	0.4	–	–
Benefit payments	(29.8)	(29.8)	(6.7)	(6.4)
Recognition of restructuring program (note 7)	7.5	12.6	–	–
Prior service (credits) costs	5.1	–	–	–
Actuarial loss (gain) and other adjustments	(49.3)	(7.4)	(65.1)	(18.3)
Accrued benefit obligations balance at end of year	$ 334.3	$ 375.8	$ 163.7	$ 219.4

Change in fair value of defined benefit plan assets

The following table represents the change in the fair value of assets of the defined benefit plans:

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Fair value of defined benefit plan assets at beginning of year	$ 276.4	$ 283.5	$ –	$ –
Actual return on plan assets	(54.6)	(1.1)	–	–
Employee contributions	0.5	0.4	–	–
Company contributions	26.7	24.4	6.7	6.4
Other	1.4	(1.0)	–	–
Benefit payments	(29.8)	(29.8)	(6.7)	(6.4)
Fair value of defined benefit plan assets at end of year	$ 220.6	$ 276.4	$ –	$ –

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The asset allocation for the Company's defined benefit pension plans, by asset category, was as follows:

Plan assets at December 31,	2008	2007
Equity securities	52.6%	60.5%
Fixed income securities	47.4%	39.5%
Total	100%	100.0%

Reconciliation of the funded status of the benefit plans to the amounts in the consolidated balance sheets

The following table presents the difference between the fair value of the defined benefit pension assets and the actuarially determined accrued benefit obligations as at December 31, 2008 and 2007. This difference is also referred to as either the deficit or surplus, as the case may be, or the funded status of the plans.

The table also reconciles the amount of the surplus or deficit (funded status) to the accrued benefit obligation in the consolidated balance sheets. This difference between the funded status and the obligation recognized in the consolidated balance sheets, in accordance with Canadian GAAP, represents the portion of the surplus or deficit not yet recognized for accounting purposes. Deferred recognition is a key element of the Canadian GAAP pension accounting. This approach allows for a gradual recognition of changes in accrued benefit obligations and fund performance over the expected average remaining service life of the employee group covered by the plans.

As at December 31, 2008, there was a total funding deficit of $113.7 million (2007 – $99.4 million) in the Company's various defined benefit pension plans. Of this amount, $53.0 million (2007 – $40.3 million) related to funded defined benefit pension plans and $60.7 million (2007 – $59.1 million) to "pay-as-you-go" unfunded defined benefit pension plans. In addition, the Company has other "pay-as-you-go" post-retirement benefit plans, consisting of group health care and life insurance, which had a deficit of $163.7 million at December 31, 2008 (2007 – $219.4 million).

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Accrued benefit obligation at end of year	$ 334.3	$ 375.8	$ 163.7	$ 219.4
Fair value of plan assets at end of year	220.6	276.4	–	–
Funded status-deficit	(113.7)	(99.4)	(163.7)	(219.4)
Unrecognized prior service (credits) costs	5.2	–	(1.5)	(1.7)
Unrecognized actuarial (gains) losses	86.7	68.2	(22.6)	45.0
Accrued benefit obligation recognized in the consolidated balance sheets	$ (21.8)	$ (31.2)	$ (187.8)	$ (176.1)

Classification of accrued obligations

The accrued benefit obligation is included in the Company's balance sheet as follows:

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Other assets (note 16)	$ 31.0	$ 16.6	$ –	$ –
Accounts payable and accrued liabilities (note 17)	(7.3)	(5.5)	(6.7)	(6.7)
Employee future benefits	(45.5)	(42.3)	(181.1)	(169.4)
	$ (21.8)	$ (31.2)	$ (187.8)	$ (176.1)

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

Components of net periodic benefit cost recognized in the year

Pension benefit plans	2008	2007	2006
Defined benefit costs			
Service cost for the year	$ 5.2	$ 5.3	$ 6.9
Interest cost	19.3	18.2	17.8
Actual return on assets	54.6	1.1	(37.7)
Actuarial (gain)/loss	(51.5)	(9.0)	14.2
Prior service costs	5.1	–	–
Settlement loss	–	0.5	–
Recognition of restructuring program (note 7)	7.5	12.6	–
Difference between actual and expected return	(73.9)	(20.7)	20.3
Difference between actual and recognized actuarial (gain)/loss and other	56.4	11.6	(7.7)
Difference between actual and recognized prior service costs	(5.1)	–	–
	17.6	19.6	13.8
Defined contribution cost			
Service cost for the year	5.5	5.3	5.5
Net periodic benefit cost for pension benefit plans	$ 23.1	$ 24.9	$ 19.3

Other benefit plans	2008	2007	2006
Defined benefit costs			
Service cost for the year	$ 4.6	$ 5.1	$ 5.6
Interest cost	11.5	11.4	10.9
Actuarial (gain)/loss	(66.2)	(18.3)	0.4
Difference between actual and recognized actuarial (gain)/loss and other	68.0	21.5	3.0
Difference between actual and recognized prior service (credits) costs	(0.2)	(0.2)	(0.2)
Net periodic benefit cost for other benefit plans	$ 17.7	$ 19.5	$ 19.7

Significant assumptions

Actuarial assumptions used in accounting for the Company-maintained benefit plans were:

	2008	2007
Benefit obligations at December 31,		
Discount rate	7.0%	5.25%
Rate of compensation increase	2.50%	2.50%
Net benefit cost for year ended December 31,		
Discount rate	5.25%	5.00%
Rate of compensation increase	2.50%	3.00%
Expected rate of return on plan assets	7.00%	7.00%
Assumed health care cost trend rate at December 31,		
Extended health benefits		
Initial health care cost trend rate	7.50%	8.00%
Annual rate of decline in trend rate	0.50%	0.50%
Ultimate health care cost trend rate	4.50%	4.50%
Dental benefits		
Dental care cost trend rate	4.0%	4.00%
Medical services plan benefits		
Premium trend rate	2.0%	2.00%

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Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost rates would have the following effects for 2008:

	Other benefit plans	
	Increase	Decrease
Total of service and interest cost	$ 3.3	$ (2.7)
Accrued benefit obligation at December 31	$ 26.5	$ (22.3)

20. Other long-term obligations

The components of other long-term obligations at December 31 were as follows:

	2008	2007
Restructuring and change-of-control liabilities (note 7)	$ 2.3	$ 8.1
Forward foreign currency contracts hedging long-term debt	–	5.4
Environmental and remedial	6.8	9.2
Other	4.2	4.2
	$ 13.3	$ 26.9

21. Deferred credits

Continuity of deferred credits for the years ended December 31 was as follows:

	2008	2007
Beginning of year	$ 21.7	$ 25.5
Adjustment related to utilization of acquired tax losses	(2.7)	(2.3)
Adjustment resulting from reduction in corporate income tax rates	(0.4)	(1.5)
End of year	$ 18.6	$ 21.7

22. Share capital

(a) Authorized

The Company is authorized to issue 100,000,000 preferred shares and an unlimited number of common shares.

(b) Issued and outstanding

	2008		2007	
	Shares	$	Shares	$
Issued and outstanding:				
Common shares	381,753,490	1,035.0	214,684,129	913.9

23. Stock-based compensation plans

(a) Details of stock-based compensation expense

	2008	2007	2006
Stock option awards	$ 1.0	$ 2.4	$ 2.0
Restricted share units	1.5	0.8	–
Deferred share units	0.2	0.2	0.9
	$ 2.7	$ 3.4	$ 2.9

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(b) Stock option plans

The Company has an employee share option plan (the "Plan") for its key officers, directors and employees. The Plan provides for the issuance of up to a maximum of 12.0 million common shares.

Options granted, other than those granted pursuant to the Company's mid and long-term incentive plan, have a maximum term of ten years. These options are exercisable as to one-third on and after the first anniversary date, as to two-thirds on and after the second anniversary date and as to all on and after the third anniversary date, unless, for all options other than those granted on March 28, 2007, the market price of the common shares exceeds a specified acceleration price, in which case all of the options are exercisable at that time. In general, market price for options is determined by the weighted average price per share for all sales of common shares on Toronto Stock Exchange ("TSX") during the five consecutive trading days preceding the date on which a determination of market price is required under the Plan. However, market price for options granted annually to the Company's directors under the director compensation program is set 25% above the market price as calculated above.

The Company has granted stock options to its key executives that are time and performance based. These options vest on December 31, 2009 subject to certain conditions being met. 50% of the total number of stock options will vest if the executive remains employed with the Company on December 31, 2009, subject to a minimum return on capital employed benchmark. The remaining 50% of the options will vest subject to the achievement of a relative return on capital employed compared to that of an industry peer group. These options have a term of seven years.

The Company applies the fair value-based method for recording share options granted to directors, officers and employees. Under the fair value method, compensation cost is measured at fair value at the date of grant, and is expensed over the award's vesting period. Compensation expense related to performance-based options has been based on management's best estimate of the outcome of the performance conditions in accordance with CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments."

The fair value of share options was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007	2006
Risk-free interest rate	3.8%	4.5%	4.0%
Annual dividends per share	Nil	Nil	Nil
Expected stock price volatility	40.0%	30.5%	30.6%
Expected option life (in years)	8.5	7.0	4.0
Average fair value of options granted (in dollars)	$ 0.51	$ 1.25	$ 1.02

The risk-free interest rate was based on a zero-coupon Government of Canada bond with a remaining term approximately equivalent to the expected life of the stock option. The Company estimated the annual dividends per share, expected stock price volatility and expected option life based on historical experience. Forfeitures were recognized as they occurred.

Changes in the number of options outstanding during the years ended December 31, were as follows:

	2008		2007		2006	
	Number of options	Weighted average exercise price (in dollars)	Number of options	Weighted average exercise price (in dollars)	Number of options	Weighted average exercise price (in dollars)
Beginning of year	3,964,024	$ 3.43	8,171,000	$ 4.35	8,409,500	$ 5.00
Granted	2,691,891	1.23	1,984,624	3.20	1,836,000	3.37
Exercised	–	–	(80,009)	3.31	–	–
Expired or cancelled	(811,931)	3.42	(6,111,591)	4.58	(2,074,500)	6.08
End of year	5,843,984	2.42	3,964,024	3.43	8,171,000	4.35

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The following table summarizes information about stock options outstanding and exercisable at December 31, 2008:

	Options outstanding			Options exercisable		
Range of exercise prices	Number of options	Weighted average remaining option life (years)	Weighted average range of exercise price (in dollars)	Number of options	Weighted average range of exercise price (in dollars)	Accelerated price (in dollars)
$1.15 – $1.95	2,691,891	7.5	$ 1.23	–	$ –	$ –
$3.06 – $3.30	1,734,093	5.8	3.08	143,334	3.24	4.66
$3.31 – $3.77	875,500	6.6	3.50	724,500	3.52	5.03
$4.39 – $4.57	542,500	6.1	4.45	422,500	4.42	5.41
	5,843,984	6.7	$ 2.42	1,290,334	$ 3.78	$ 5.11

(c) Restricted share units

The Company has established a Restricted Share Unit Plan for its directors and key executives. Under the terms of this plan, senior executives are eligible to incentive remuneration paid to them in the form of restricted share units ("RSUs"). Each RSU, once vested, entitles the holder to receive one common share of the Company. The fair value of RSUs is based on the market value of the Company's shares on the day of the grant.

RSUs vest in accordance with terms determined by the Company, which may be based on, among other things, one or more of the following factors: (i) the return to shareholders with or without reference to other comparable businesses; (ii) the financial performance or results of the Corporation; (iii) other performance criteria relating to the Corporation; and (iv) the length of time of service by the participant. The performance terms that the Company may apply to RSUs are intended to strengthen the link between the Corporation's performance and the value of the RSUs at the time that they are paid out. In some cases, RSUs may vest immediately, depending upon the purpose of the individual RSU grant and the intended compensation goal.

Compensation expense related to performance-based RSUs is based on management's best estimate of the outcome of the performance conditions in accordance with CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments."

Changes in the number of outstanding RSUs during the year ended December 31, 2008 were as follows:

	Number of shares	Weighted average fair value at grant date (in dollars)
Beginning of year	1,686,307	$ 3.20
Granted	755,785	1.05
Expired or cancelled	(163,072)	(3.11)
End of year	2,279,020	$ 2.94

(d) Deferred share unit plan

The Company has established a deferred share unit ("DSU") plan for its directors. Under the terms of this plan, directors may elect to receive their annual cash remuneration in DSUs, cash or a combination thereof. Each DSU initially has a value equivalent to the Company's weighted average share price on the TSX, during the 10 consecutive trading days prior to the issuance date of the DSU. A director's DSU account is credited with dividend equivalents in the form of additional DSUs when dividends are paid on common shares. A director may elect the date of redemption by filing an irrevocable written election with the Company no later than December 15 of the calendar year commencing immediately after the director's termination date. The value will be paid by the Company as a lump sum in cash, equal to the fair value of the notional underlying common shares plus accrued dividend equivalents at that date, after deduction of applicable taxes and other source deductions required to be withheld. Liabilities related to this plan are recorded in "Accounts payable and accrued liabilities". As at December 31, 2008, 646,119 DSUs were outstanding under this plan (2007 – 365,188 DSUs) and approximately $0.3 million was payable (2007 – $0.6 million).

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24. Financial instruments

(a) Financial risk management

Financial instruments of the Company consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt. Cash and cash equivalents are designated as held for trading and recorded at fair market values. Accounts receivable are designated as loans and receivables and are recorded at amortized cost. Accounts payable and accrued liabilities and long-term debt are designated as other liabilities and recorded at amortized cost. The Company has no non-derivative financial instruments classified as available for sale or held to maturity. Financial instruments of the Company also include derivatives which the Company uses to reduce its exposure to currency and price risk associated with its revenues, energy costs and long-term debt.

The Company has exposure to risk from its financial instruments, specifically credit risk, market risk (including currency, price and interest rate risk) and liquidity risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors and Audit Committee have approved a policy to manage the risks from the use of derivatives. This policy provides objectives for, and limits on the use of derivatives. Derivative positions are reported to the Audit Committee quarterly. Management policies identify and analyze the risks, establish appropriate controls, place responsibilities and limits and provide for regular monitoring and reporting requirements. A Financial Risk Committee of management meets monthly to review outstanding positions and authorize ongoing or additional hedge placements under the policy. Periodic reviews of internal controls related to financial risk management are performed by internal audit.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. This risk derives principally from the Company's receivables from customers and derivative counterparties.

Accounts receivable

The Company is exposed to credit risk on accounts receivable from its customers who are mainly in the newspaper publishing, commercial printing and paper manufacturing businesses. The Company manages its credit risk principally through credit policies, which include the analysis of the financial position of its customers and the regular review of their credit limits. The Company also subscribes to credit insurance for substantially all of its receivables, periodically purchases accounts receivable puts on certain customers, and obtains bank letters of credit for some export market customers.

Aging of receivables at December 31 were as follows:

	2008	2007
Trade receivables, gross		
Current	$ 177.8	$ 164.8
Past due 1-30 days	24.5	29.7
Past due 31-90 days	4.0	2.0
Past due over 90 days	0.3	0.5
	206.6	197.0
Allowance for doubtful accounts	(3.2)	(2.8)
Trade receivables, net	203.4	194.2
Other receivables, including GST recoverables	18.3	18.9
Accounts receivable (note 12)	$ 221.7	$ 213.1

The movement in the allowance for doubtful accounts in respect of trade receivables during the years ended December 31 were as follows:

	2008	2007
Balance, beginning of year	$ 2.8	$ 3.1
Increase in provision	3.1	–
Utilized in the year	(2.7)	(0.3)
Balance, end of year (note 12)	$ 3.2	$ 2.8

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The Company has experienced larger bad debt expense in 2008 as a result of deteriorating economic conditions and the difficult refinancing environment.

Derivatives

The Company is also exposed to credit risk with counterparties to the Company's derivative financial instruments. The credit risk arises from the potential for a counterparty to default on its contractual obligations, and is limited to those contracts where the Company would incur a cost to replace a defaulted transaction. The Company manages this risk by diversifying through counterparties that are of strong credit quality, normally major financial institutions.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows or the value of its financial instruments (e.g., fixed interest long-term debt).

Currency risk

The Company is exposed to the risk that future cash flows will fluctuate as substantially all of the Company's sales and accounts receivable are denominated in U.S. dollars, while only a portion of its costs and payables are denominated in or referenced to U.S. dollars. The Company is also exposed to the fluctuations in the fair value of its debt denominated in U.S. dollars. The Company uses foreign currency options and forward contracts to partially hedge trade receivables and anticipated future sales denominated in foreign currencies as well as U.S. dollar denominated debt.

The Company's hedging policy for anticipated sales and accounts receivable includes 33% to 67% of 0- to 12-month and 0% to 25% of 13- to 24-month U.S. dollar net exposure. Hedges are layered in over time, increasing the portion of sales or accounts receivable hedged as it gets closer to the expected date of the sale or collection of the account receivable.

The Company's hedging policy for its U.S. dollar denominated debt includes 0% to 60% of U.S. dollar net exposure. Future U.S. dollar revenues also provide a partial natural hedge for U.S. dollar denominated debt.

Price risk

The Company's policy allows for hedges of newsprint, pulp, and white top linerboard to be placed on anticipated sales and hedges of old newsprint to be placed on anticipated purchases. As well, hedges are placed on anticipated purchases at 10% to 70% of the net exposure for oil and natural gas. The outstanding hedge positions are not significant and the price risk associated with the Company's commodity hedges, for pulp and white top linerboard outputs, is de minimus.

Interest rate risk

The fair value of the Company's fixed rate debt or the future cash flows of variable rate debt or fixed-to-floating interest swaps may fluctuate because of changes in market interest rates. The Company policy is to keep the majority of its term debt on a fixed rate basis, but allow for the placing of some fixed-to-floating swaps at rates considered acceptable.

Sensitivity analysis for derivative positions and variable rate debt

			Effect from increase in rate or price		Effect from decrease in rate or price	
As at December 31, 2008	Currency and notional amount ($millions)	Change in rate or price	Net earnings ($millions)	Other comprehensive income ($millions)	Net earnings ($millions)	Other comprehensive income ($millions)
Revenue hedges – currency risk (US$/C$)	US$570	5%	5.9	6.8	(6.4)	(7.4)
Revenue hedges – price risk (commodities)	US$11	5%	(0.4)	–	0.4	–
Oil and natural gas hedges – price risk (commodities)	C$4	5%	0.1	–	(0.1)	–
Old newspaper ("ONP") hedges – price risk (commodities)	US$3	5%	0.1	–	(0.1)	–
U.S. debt hedges – currency risk (US$/C$)	US$190	10%	(6.1)	–	7.1	–
ABL Facility – interest risk (annualized)	C$60	100 bps	(0.4)	–	0.4	–

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Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due over the next 12 to 24 months, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's principal cash requirements are for interest payments on its debt, capital expenditures and working capital needs. The Company uses its operating cash flows, ABL Facility and cash balances to maintain its liquidity. Internal forecasts are regularly prepared that include earnings, capital expenditures, cash flows, cash or revolver drawings, and sensitivities for major assumptions. The internal forecasts include borrowing base availability and covenant compliance. The Company also monitors the maturities of its long-term debt and assesses refinancing costs and risks in deciding when to refinance debt in advance of its maturity.

(b) Revenue risk management instruments

Foreign currency options and forward contracts outstanding to sell U.S. dollars were as follows:

	Options					
	Purchased US$ put		Sold US$ call		Forward contracts	
Term	US$millions	Average rate US$/C$	US$millions	Average rate US$/C$	US$millions	Average rate US$/C$
As at December 31, 2008						
0 to 12 months	$ 501	0.9553	$ 302	0.8810	$ 14	0.7805
13 to 24 months	55	0.9674	10	0.8877	–	–
	$ 556	0.9565	$ 312	0.8812	$ 14	0.7805
As at December 31, 2007						
0 to 12 months	$ 496	0.9688	$ 106	0.9190	$ 47	1.0001
13 to 24 months	38	1.0355	–	–	–	–
	$ 534	0.9733	$ 106	0.9190	$ 47	1.0001

The effective portion of changes in the fair value of derivatives that qualify and are designated as cash flow hedges are deferred and recorded in AOCI, a component of shareholders' equity. When the underlying transaction is recorded in earnings, the corresponding gain or loss on the hedged item is reclassified from AOCI to "Sales". Any ineffective portion of a hedging derivative's change in fair value and the portion that is excluded from the assessment of hedge effectiveness is recognized immediately in "Sales". At December 31, 2008, instruments having a notional principal of US$425 million are designated as hedging instruments. At year-end exchange rates, the net amount the Company would pay to settle the above contracts and options is $26.9 million (December 31, 2007 – positive $32.9 million).

At December 31, 2008, commodity swap agreements are outstanding to fix the sales price of 3,500 metric tonnes of NBSK pulp within the next three months and 1,500 short tons of white top linerboard within the next six months. In addition, a commodity swap agreement to fix the sales price of newsprint and purchase price of ONP within the next eleven months is outstanding for 11,000 tonnes. These contracts are not designated as hedging instruments for accounting purposes and are reported at their fair value, which was $0.6 million at the end of the year (December 31, 2007 – negative $1.0 million).

(c) Cost risk management instruments

	Options			
	Sold		Purchased	
Term	GJ (millions)	Average rate C$/GJ	GJ (millions)	Average rate C$/GJ
As at December 31, 2008	0.5	$ 7.63	0.5	$ 8.00
As at December 31, 2007	0.6	$ 6.07	1.0	$ 7.98

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The above instruments are not designated as hedging instruments for accounting purposes. At period-end contract rates, the net amount the Company would pay to settle these commodity contracts is $0.8 million (December 31, 2007 – $0.2 million).

The Company had no oil contracts and options outstanding at December 31, 2008. Oil contracts and options outstanding at December 31, 2007 were not significant.

At December 31, 2008, commodity swap agreements to fix the purchase price of ONP within the next ten months are outstanding for 40,000 tonnes. These contracts are not designated as hedging instruments for accounting purposes and are reported at their fair value, which was negative $0.9 million at the end of the year. The Company had no such swap agreements outstanding at December 31, 2007.

(d) Long-term debt risk management instruments

The Company is party to forward foreign currency contracts or options to acquire U.S. dollars totalling US$190 million (December 31, 2007 – US$228 million) over a six-year period at rates averaging US$/C$0.9334. These instruments are not designated as hedging instruments for accounting purposes, and are included in "Other assets" on the balance sheet at their fair value. Settlements and changes in fair value are recognized in "Foreign exchange gain (loss) on long-term debt". At period-end exchange rates, the net amount the Company would receive to settle these contracts is $34.2 million (December 31, 2007 – negative $5.4 million).

(e) Interest rate swaps

The Company has no fixed-to-floating interest rate swaps outstanding at December 31, 2008.

During the year ended December 31, 2008, the Company unwound its fixed-to-floating interest rate swap contracts for notional US$80 million for proceeds of $7.6 million. The effective portion of changes in the fair value of these derivatives was netted in "Long-term debt" and the ineffective portion was recognized in "Interest expense, net".

(f) Fair value of financial instruments

The carrying value of the Company's other financial instruments, namely cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

25. Related party transactions

Related parties include Third Avenue Management LLC ("TAM"), which has control or direction over a significant number of the Company's common shares since October 2006. In 2008, TAM acquired an additional 59,856,422 common shares in connection with the rights offering related to the acquisition of Snowflake. The Company did not undertake any transactions with TAM during the year ended December 31, 2007.

Related parties also included Norske Skogindustrier ASA ("Norske Skog"), together with its subsidiaries and affiliates, up to February 16, 2006 when Norske Skog disposed of its 29.4% interest in the Company.

Transactions or balances with these related parties not otherwise disclosed in these financial statements were as follows:

	2008	2007	2006
Norske Skog			
Selling, general and administrative	$ –	$ –	$ 0.2

In prior years, the Company acquired from wholly-owned subsidiaries of Fletcher Challenge Limited, now subsidiaries of Norske Skog, companies with tax losses. The purchase price of these companies is subject to adjustment under certain conditions. At December 31, 2008, there was no outstanding balance with respect to such adjustments (2007 – $nil; 2006 – $nil). During 2006, the Company collected $4.3 million in respect of the adjustments.

The Company undertakes certain transactions with companies affiliated with its directors. These transactions are in the normal course of business and are on the same terms as those accorded to third parties. During 2008, the Company paid aggregate fees of approximately $10.0 million (2007 – $8.7 million; 2006 – $0.4 million) primarily for obligations under a building lease, for services related to trucking chips and sawdust, and for other consulting services to companies affiliated with directors of the Company. In addition, the Company paid $nil (2007 – $0.7 million; 2006 – $3.9 million) primarily for chemicals used in the manufacturing process to a company affiliated with a former officer and director of the Company.

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26. Commitments

(a) The Company has entered into operating leases for property, plant and equipment. The minimum future payments under various operating leases in each of the years ended December 31 are as follows:

2009	$	10.3
2010		9.0
2011		8.4
2012		6.1
2013		5.7
Subsequent years		28.0
	$	67.5

The total lease expense amounted to $11.9 million in 2008 (2007 – $12.3 million; 2006 – $13.0 million).

(b) The Company has entered into a six-year take-or-pay contract for the purchase of recycled paper used in the production of its paper products. The agreement, effective May 1, 2006, provides for minimum purchase quantities of recycled paper and prices are based on market rates at the beginning of each month. Total purchases in 2008 amounted to $2.4 million (2007 – $2.1 million). At current market rates, the Company is expected to pay approximately $1.9 million per year for the duration of the contract.

27. Guarantees and indemnities

The Company has, over time, provided various indemnities with respect to tax, environment, and employment liabilities, as well as general representations and warranties on sales of portions of its business, acquisitions, and commodity contracts. Significant existing indemnities are as follows:

(a) The Company sold a portion of its operations in June 2001. In this regard, the Company provided a 10-year environmental indemnity with a maximum liability to the Company of $12.5 million. This liability has subsequently been reduced by expenditures related to certain decommissioning projects. The Company provided a tax indemnity, which continues while the relevant tax years of the indemnified parties remain open to audit.

(b) In connection with the acquisition of the Company's paper recycling operation in December 2003, the Company has provided indemnities with respect to representations and warranties related to general corporate matters and to the shares that have been issued to the vendors. Liability under these indemnities expired in November 2008, except that the indemnity related to title to the shares does not expire. The Company does not expect any significant claims with respect to this indemnity. The Company has also provided indemnities with respect to general environmental matters under its lease of the land and buildings. The Company has agreed to indemnify the landlord for all costs, claims and damages related to any release by the Company of any hazardous substances on the property or the breach by the Company of its environmental covenants under the lease or any environmental laws. This indemnity is indefinite and survives after the lease is terminated. The Company is not liable for pre-existing environmental conditions.

(c) The Company has entered a building lease agreement whereby it has agreed to continue making the prescribed lease payments directly to the financial institution holding the mortgage on the building in the event the lessor is no longer able to meet its contractual obligations (note 5). As at December 31, 2008, the value of the mortgage was $9.6 million (2007 – $10.6 million). This agreement does not increase the Company's liability beyond the obligation under the building lease.

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28. Contingent liabilities

In the normal course of its business activities, the Company is subject to a number of claims and legal actions that may be made by customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at December 31, 2008, cannot be predicted with certainty, the Company believes an adequate provision has been made, or the resolution will not have a material effect on the Company's consolidated financial position, earnings or cash flows.

The Company is party to a 20-year Energy Services Agreement with Island Cogeneration No.2 Inc. ("ICP"), the owner of a cogeneration facility at the Company's Elk Falls mill site. The agreement has a minimum take-or-pay obligation in respect of steam, subject to terms, which obligation became operative in 2001. Due to the unavailability of sawdust fibre from the Company's traditional sources of supply in British Columbia, which led to the closure of the Elk Falls pulp and white top linerboard operation in November 2008, the Company is currently unable to take steam from the ICP facility. Accordingly, the Company declared force majeure by notice to ICP effective November 30, 2008. ICP has disputed the force majeure declaration (which applied to the period following the closure of the pulp mill as well as prior periods in the year during which sawdust fibre was unavailable) and has filed an arbitration notice indicating its intention to arbitrate the issue. The arbitration schedule is not yet known, however the arbitration hearing may commence at some point in the latter part of 2009. Under the agreement, the Company has certain obligations to attempt to counter its inability to take the steam and it is exploring possible alternatives in this regard. The proceedings are in their early stages and the Company has not recorded a liability for this contingency since the likelihood and amount of any potential liability cannot be reasonably estimated. Should the ultimate resolution differ from the Company's assessment, a material adjustment to the Company's financial position and the results of its operations could result. The Company expects in any event to incur significant legal fees in connection with this matter. As at December 31, 2008, the Company estimates that the cost of the steam that it has been unable to take due to the force majeure event was approximately $4 million. The Company estimates that the monthly cost of the steam that it is unable to take due to the force majeure event is approximately $1.0 million to $1.5 million.

29. Accounting policy developments

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets" which replaced existing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company does not have any goodwill and intangible assets on its balance sheet and as such does not expect this standard to have an impact on the Company's consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board confirmed its decision requiring all publicly accountable entities to report under International Financial Reporting Standards ("IFRS"). This decision establishes standards for financial reporting with the aim of consistency in the global marketplace. These standards are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company has completed an initial scoping phase which involves performing a high-level impact assessment to identify key areas that may be impacted by the transition to IFRS and the major areas where significant complexities or key decisions are required by management prior to implementation. Detailed assessment of significant differences is provided in the Company's 2008 annual Management's Discussion and Analysis. As an alternative, the Company is also considering the implications of a transition to U.S. GAAP and expects to make a final determination during 2009.

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30. Reconciliation of Canadian and United States generally accepted accounting principles

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP, which differ in some respects from U.S. GAAP. The following are the significant differences in accounting principles as they pertain to the consolidated earnings and consolidated balance sheets:

Net earnings adjustments

The following table provides a reconciliation of the net earnings (loss) for the years ended December 31 from Canadian GAAP to U.S. GAAP:

	2008	2007	2006
Net earnings (loss) as reported under Canadian GAAP	$ (221.1)	$ (31.6)	$ (15.9)
U.S. dollar revenue hedges (a)	–	–	(9.4)
U.S. dollar long-term debt hedges (b)	–	–	(0.7)
Fixed-to-floating interest swaps (c)	–	–	(0.8)
Foreign exchange gain (loss) on hedge of net investment (d)	2.4	–	–
Income tax impact effect of rate change	(1.1)	(4.9)	1.1
Net earnings (loss) in accordance with U.S. GAAP	(219.8)	(36.5)	(25.7)
Other comprehensive income:			
Other comprehensive income in accordance with Canadian GAAP (e)	(18.5)	14.3	–
Reclass of amortization of employee future benefits included in pension cost, net of future income taxes of $3.6 million (2007 – $5.1 million)	10.3	13.9	–
Employee future benefits liability adjustment, net of future income taxes of $8.1 million (2007 – $2.2 million)	22.8	(5.8)	–
Minimum pension liability adjustment, net of future income taxes of $nil (2006 – $3.6 million) (e)	–	–	7.9
Reclassification of effective portion of U.S. dollar hedges on de-designation, net of future income taxes of $nil (2006 – $5.2 million) (a)	–	–	(11.3)
Effective portion of U.S. dollar revenue hedges, net of future income taxes of $nil (2006 – $2.8 million) (a)	–	–	6.1
Comprehensive income (loss) in accordance with U.S. GAAP	$ (205.2)	$ (14.1)	$ (23.0)
Basic and diluted net earnings (loss) per share in accordance with U.S. GAAP (in dollars)	(0.65)	(0.17)	(0.12)
Basic and diluted weighted average number of shares in accordance with U.S. GAAP (in millions)	336.1	214.7	214.6

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

The following table presents the consolidated statements of earnings under Canadian and U.S. GAAP:

Years ended December 31,	2008		2007		2006	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Sales	$ 1,849.4	$ 1,849.4	$ 1,714.6	$ 1,714.6	$ 1,882.5	$ 1,873.2
Operating expenses						
Cost of sales	1,613.0	1,613.0	1,574.6	1,574.6	1,609.3	1,609.3
Selling, general and administrative	46.9	46.9	48.3	48.3	62.2	62.2
Restructuring and change-of-control	30.1	30.1	64.7	64.7	–	–
Amortization	165.8	165.8	176.4	176.4	183.7	183.7
Impairment	151.0	151.0	–	–	23.4	23.4
	2,006.8	2,006.8	1,864.0	1,864.0	1,878.6	1,878.6
Operating earnings (loss)	(157.4)	(157.4)	(149.4)	(149.4)	3.9	(5.4)
Interest expense, net	(75.0)	(75.0)	(70.7)	(70.7)	(73.8)	(74.6)
Foreign exchange gain (loss) on long-term debt	(82.2)	(82.2)	103.9	103.9	(0.3)	(1.0)
Other income (expense), net	2.5	4.9	(15.3)	(15.3)	1.8	1.8
Earnings (loss) before income taxes and non-controlling interest	(312.1)	(309.7)	(131.5)	(131.5)	(68.4)	(79.2)
Income tax recovery	(91.8)	(90.7)	(100.0)	(95.1)	(54.0)	(55.0)
Net earnings (loss) before non-controlling interest	(220.3)	(219.0)	(31.5)	(36.4)	(14.4)	(24.2)
Non-controlling interest	(0.8)	(0.8)	(0.1)	(0.1)	(1.5)	(1.5)
Net earnings (loss)	$ (221.1)	$ (219.8)	$ (31.6)	$ (36.5)	$ (15.9)	$ (25.7)
Other comprehensive income	(18.5)	14.6	14.3	22.4	–	2.7
Comprehensive income (loss)	$ (239.6)	$ (205.2)	$ (17.3)	$ (14.1)	$ (15.9)	$ (23.0)
Basic and diluted earnings (loss) per share (in dollars)	$ (0.66)	$ (0.65)	$ (0.15)	$ (0.17)	$ (0.07)	$ (0.12)
Weighted average common shares outstanding (in millions)	336.1	336.1	214.7	214.7	214.6	214.6

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

Balance sheet adjustments

The following table provides a reconciliation of the consolidated balance sheet components at December 31 from Canadian GAAP to U.S. GAAP:

	2008	2007
Property, plant and equipment – Canadian GAAP	$ 1,852.0	$ 1,912.8
Foreign exchange gain (loss) on hedge of net investment (d)	2.4	–
Property, plant and equipment – U.S. GAAP	$ 1,854.4	$ 1,912.8
Other assets – Canadian GAAP	$ 100.5	$ 54.8
Employee future benefits (e)	(30.8)	(17.1)
Deferred financing costs (g)	11.2	14.4
Other assets – U.S. GAAP	$ 80.9	$ 52.1
Long-term debt – Canadian GAAP	$ 882.9	$ 784.6
Deferred financing costs (g)	11.2	14.4
Long-term debt – U.S. GAAP	$ 894.1	$ 799.0
Employee future benefits – Canadian GAAP	$ 226.6	$ 211.7
Employee future benefits (e)	36.6	95.1
Employee future benefits – U.S. GAAP	$ 263.2	$ 306.8
Future income taxes – Canadian GAAP	$ 66.8	$ 154.2
Tax effect of employee future benefits adjustment (e)	(25.9)	(37.6)
Tax effect of other adjustments	8.4	7.3
Future income taxes – U.S. GAAP	$ 49.3	$ 123.9
Shareholders' equity – Canadian GAAP	$ 870.0	$ 988.6
Foreign exchange gain (loss) on hedge of net investment (d)	2.4	–
Employee future benefits (e)	(67.4)	(112.2)
Tax effect of employee future benefits adjustment (e)	25.9	37.6
Tax effect of other adjustments	(8.4)	(7.3)
Shareholders' equity – U.S. GAAP	$ 822.5	$ 906.7

The following table provides a reconciliation of accumulated other comprehensive income at December 31 from Canadian GAAP to U.S. GAAP:

	2008	2007
Accumulated other comprehensive income – Canadian GAAP	$ (4.9)	$ 13.6
Employee future benefits – adoption of FAS 158	(41.5)	(74.6)
Accumulated other comprehensive income (loss) – U.S. GAAP	$ (46.4)	$ (61.0)

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

The following table presents the consolidated balance sheets under Canadian and U.S. GAAP:

As at December 31,	2008		2007	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Assets				
Current assets				
Cash and cash equivalents	$ 5.0	$ 5.0	$ –	$ –
Accounts receivable	221.7	221.7	213.1	213.1
Inventories	211.4	211.4	235.7	235.7
Prepaids and other	32.8	32.8	40.7	40.7
	470.9	470.9	489.5	489.5
Property, plant and equipment	1,852.0	1,854.4	1,912.8	1,912.8
Other assets	100.5	80.9	54.8	52.1
	$ 2,423.4	$ 2,406.2	$ 2,457.1	$ 2,454.4
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$ 269.4	$ 269.4	$ 268.2	$ 268.2
Current portion of long-term debt	75.8	75.8	1.2	1.2
	345.2	345.2	269.4	269.4
Long-term debt	882.9	894.1	784.6	799.0
Employee future benefits	226.6	263.2	211.7	306.8
Other long-term obligations	13.3	13.3	26.9	26.9
Future income taxes	66.8	49.3	154.2	123.9
Deferred credits	18.6	18.6	21.7	21.7
	1,553.4	1,583.7	1,468.5	1,547.7
Shareholders' equity				
Share capital	1,035.0	1,035.0	913.9	913.9
Contributed surplus	14.6	14.6	12.1	12.1
Retained earnings	(174.7)	(180.7)	49.0	41.7
Accumulated other comprehensive income (loss)	(4.9)	(46.4)	13.6	(61.0)
	870.0	822.5	988.6	906.7
	$ 2,423.4	$ 2,406.2	$ 2,457.1	$ 2,454.4

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

(a) U.S. dollar revenue hedges

Effective January 1, 2007, the Company adopted the new Canadian accounting standards that require entities to record its derivatives at fair value. Changes in the fair value of designated contracts, during the period of designation, are recorded in other comprehensive income, net of tax, until the hedged item is recognized. Changes in the fair value of undesignated contracts are recognized in income. Prior to January 1, 2007, under Canadian GAAP, translation gains and losses on foreign currency options and forward contracts to sell foreign currencies that were designated as hedges were recognized concurrently with the hedged revenue in "Sales". The adoption of new Canadian standards have eliminated this difference.

(b) U.S. dollar long-term debt hedges

Under Canadian GAAP, prior to January 1, 2004, the Company designated foreign currency contracts related to its U.S. dollar debt as hedges. The forward premium or discount on forward foreign currency contracts used to hedge the U.S. dollar long-term debt was amortized to interest expense over the term of the forward contract. Effective January 1, 2004, foreign currency contracts related to U.S. dollar debt are not designated as hedges. Under U.S. GAAP, the Company does not account for such contracts as hedges of long-term debt and recognizes the foreign currency contracts on a fair value basis at each reporting period. The adoption of new Canadian standards on January 1, 2007 eliminated this difference.

(c) Fixed-to-floating interest swaps

Effective January 1, 2007, the Company adopted the new Canadian accounting standards that recognize the unrealized gains and losses on interest rate swap contracts in the financial statements. The ineffectiveness of the hedge is quantified, and the ineffective portion of the changes in fair value is recorded in interest expense. Prior to January 1, 2007, unrealized gains and losses on interest rate swap contracts designated as hedges were not recognized in the financial statements under Canadian GAAP. The adoption of new Canadian standards have eliminated this difference.

(d) Foreign exchange on hedge of net investment

Under Canadian GAAP, the Company designated a forward contract as a hedge of the purchase price on the acquisition of the Snowflake mill. The foreign exchange gain was accounted for as a reduction of the net investment. Under U.S. GAAP, the Company has eliminated the GAAP difference by recognizing the foreign exchange gain in earnings.

(e) Employee future benefits

Effective December 31, 2006, the Company adopted Financial Accounting Standards ("FAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans". This statement requires the recognition of the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in the balance sheet and changes in that funded status in the year in which the changes occur through comprehensive income. This new standard replaced the U.S. GAAP requirement to recognize an additional minimum pension liability in cases where the accumulated benefit obligation exceeded the market value of plan assets. The portion of this additional liability that related to unrecognized prior service cost was recognized as an intangible asset while the remainder was charged to comprehensive income (loss). There is no change in the calculation of the pension and other employee future benefits expense. Canadian GAAP has no such requirement.

(f) Comprehensive income

Statement of FAS No. 130, "Reporting Comprehensive Income", requires that a company classify items of other comprehensive income in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. The concept of comprehensive income exists under Canadian GAAP, but applies to fiscal years beginning on or after October 1, 2006 and applies to the Company commencing in its 2007 fiscal year.

(g) Debt issue costs

Effective January 1, 2007, on adoption of the new Canadian accounting standards, the Company netted its debt issue costs associated with its senior notes against the carrying value of debt. Under U.S. GAAP, debt issue costs are reported in the balance sheet as deferred charges.

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

(h) Future income taxes

On January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 clarifies the accounting for uncertainty in income taxes and uses a more-likely-than-not threshold to determine recognition in the financial statements of an uncertain tax position. The more-likely-than-not threshold means that a benefit related to an uncertain tax position is recognized only when it is more-likely-than-not that the position will be sustained based on its technical merits and where there is a greater than 50 per cent likelihood that the position would be sustained if challenged by a tax authority. The tax position is measured as the largest amount of benefit that is greater than 50 per cent likely of being realized upon settlement. The unresolved uncertain tax positions must be reassessed at each balance sheet date based on these thresholds. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for fiscal years beginning after December 31, 2006.

The Company did not record any unrecognized tax benefits as a result of applying this interpretation.

A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of 2008 is as follows:

Unrecognized tax benefits, beginning of year	$ 16.9
Increases – tax positions taken in prior periods	–
Decreases – tax positions taken in prior periods	(2.5)
Current period tax positions	–
Settlements	(2.6)
Lapse of statute of limitations	–
Decrease resulting from tax rate reduction	(0.1)
Unrecognized tax benefits, end of year	$ 11.7

The above balance, if recognized, would affect the Company's effective tax rate. Total amount of interests and penalties related to the above amount is $nil.

In the normal course of business, the Company and its subsidiaries are subject to audits by the Canadian federal and provincial taxing authorities, by the U.S. federal and various state taxing authorities and by the taxing authorities in various foreign jurisdictions. All tax years up to and including December 31, 2002 have been audited by the Canadian federal taxing authorities. The Canadian federal taxing authorities are presently auditing the December 31, 2003, December 31, 2004, and December 31, 2005 taxation years of the Canadian entities. The Company is not currently under audit by the U.S. Internal Revenue Service, by any U.S. state taxing authority or by any foreign taxing authority. The U.S. federal statute of limitations for pre-2005 tax years expired on September 15, 2008.

(i) Shareholders' equity

Accumulated other comprehensive income is recorded as a separate component of shareholders' equity under U.S. GAAP. The concept of accumulated other comprehensive income exists under Canadian GAAP, but applies to fiscal years beginning on or after October 1, 2006 and applies to the Company commencing in its 2007 fiscal year.

(j) Consolidated cash flows

Under U.S. GAAP, the consolidated cash flows would not be significantly different from the presentation under Canadian GAAP, except that U.S. GAAP does not allow sub-totals within cash flows provided by operations.

(k) Changes in accounting policies

Fair value measurement

FASB issued FAS 157, "Fair Value Measurement", which clarifies the definition of "fair value" applicable under all United States accounting standards, with some limited exceptions. The standard establishes a single definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The objective of the standard is to increase consistency, reliability and comparability in fair value measurements, and to enhance disclosures to help users of financial statements assess the effects of the fair value measurements used in financial reporting. The framework provides a hierarchy for reliably determining fair value based on the definition in the standard. This standard is effective November 1, 2008. For the year ended December 31, 2008, the Company has adopted this standard under Canadian GAAP and as a result there is no difference.

Notes to Consolidated Financial Statements

Amounts expressed in millions of dollars, except where otherwise stated

FASB issued FAS 159, "Fair Value Option for Financial Assets and Liabilities", which allows entities to elect fair value accounting to certain financial assets and liabilities. The adoption of this standard had no impact on the Company's consolidated financial statements.

FASB issued FAS 140-e, "Disclosure About Transfers of Financial Assets and Interests in Variable Interest Entities", that requires additional disclosures relating to retained interest in financial assets and provides guidance on how a primary beneficiary is determined as a VIE. The adoption of this standard had no impact on the Company's consolidated financial statements.

(l) Changes in future accounting policies

FASB has issued the following announcements:

(i) FAS 141R – "Business Combinations", provides new guidance on accounting for business combinations, on how entities should approach financial planning and reporting around business combinations. This will require entities to be more transparent in demonstrating the values of assets and liabilities. This standard is effective for fiscal years beginning after December 15, 2008.

(ii) FAS 160 – "Non-controlling Interests in Consolidated Financial Statements", has been issued to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing specific accounting and reporting standards. This standard is effective for fiscal years beginning on or after December 15, 2008

(iii) FAS 161 – "Disclosures About Derivative Instruments and Hedging Activities". This standard requires enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The standard is effective for fiscal years beginning after November 15, 2008.

Consolidated Statements of Earnings

Years ended December 31 (In millions of dollars)	2008	2007	2006	2005	2004	2003	2002	2001
Sales	**$1,849.4**	$ 1,714.6	$ 1,882.5	$ 1,823.9	$ 1,878.2	$ 1,820.5	$ 1,704.0	$ 1,561.1
Operating expenses								
Cost of sales	**1,613.0**	1,574.6	1,609.3	1,604.3	1,674.9	1,687.5	1,582.1	1,286.6
Selling, general and administrative	**46.9**	48.3	62.2	57.7	50.5	54.7	65.3	63.6
Restructuring and change-of-control	**30.1**	64.7	–	6.7	–	–	–	–
Amortization	**165.8**	176.4	183.7	180.3	184.1	189.9	178.5	131.2
Impairment	**151.0**	–	23.4	–	–	–	–	–
	2,006.8	1,864.0	1,878.6	1,849.0	1,909.5	1,932.1	1,825.9	1,481.4
Operating earnings (loss)	**(157.4)**	(149.4)	3.9	(25.1)	(31.3)	(111.6)	(121.9)	79.7
Interest expense, net	**(75.0)**	(70.7)	(73.8)	(75.7)	(74.9)	(75.0)	(76.2)	0.9
Foreign exchange gain (loss) on long-term debt	**(82.2)**	103.9	(0.3)	24.7	53.5	58.2	12.3	(17.1)
Write-down of property, plant and equipment	–	–	–	–	–	(14.2)	–	–
Loss on repayment of long-term debt	–	–	–	–	(5.2)	–	–	–
Other income (expense), net	**2.5**	(15.3)	1.8	4.5	1.2	(3.9)	(13.3)	(40.2)
Earnings (loss) before income taxes and non-controlling interest	**(312.1)**	(131.5)	(68.4)	(71.6)	(56.7)	(146.5)	(199.1)	23.3
Income tax recovery	**(91.8)**	(100.0)	(54.0)	(46.6)	(28.1)	(62.0)	(75.8)	(21.2)
Net earnings (loss) before non-controlling interest	**(220.3)**	(31.5)	(14.4)	(25.0)	(28.6)	(84.5)	(123.3)	44.5
Non-controlling interest	**(0.8)**	(0.1)	(1.5)	(0.6)	–	–	–	–
Net earnings (loss)	**$ (221.1)**	$ (31.6)	$ (15.9)	$ (25.6)	$ (28.6)	$ (84.5)	$ (123.3)	44.5
Other comprehensive income (loss) [1]	**(18.5)**	14.3	–	–	–	–	–	–
Comprehensive income (loss) [1]	**$ (239.6)**	$ (17.3)	$ (15.9)	$ (25.6)	$ (28.6)	$ (84.5)	$ (123.3)	44.5

1 Effective January 1, 2007, the Company adopted the new CICA Section 3855, "Financial Instruments – Recognition and Measurement", Section 1530, "Comprehensive Income", Section 3865, "Hedges", Section 3861, "Financial Instruments – Disclosure and Presentations" and Section 3251, "Equity". These standards introduce new requirements for recognition, measurement and disclosure of financial instruments, when and how hedge accounting may be applied, establishes the concept of comprehensive income and rules for operating it, and establishes rules for the presentation of equity and changes in equity. Prior period financial statements are not revised for the adoption of these new standards.

Consolidated Balance Sheets

As at December 31 (In millions of dollars)	2008	2007	2006	2005	2004	2003	2002	2001
Assets								
Current assets								
Cash and cash equivalents	$ 5.0	$ –	$ 35.5	$ –	$ 26.0	$ –	$ –	$ 104.8
Marketable securities	–	–	–	–	–	–	–	34.4
Accounts receivable	221.7	213.1	277.9	246.7	236.8	238.2	279.1	309.2
Inventories	211.4	235.7	245.0	245.7	258.1	235.9	242.7	230.5
Prepaids and other	32.8	40.7	15.4	24.1	24.6	21.9	9.2	4.1
	470.9	489.5	573.8	516.5	545.5	496.0	531.0	683.0
Property, plant and equipment	1,852.0	1,912.8	2,023.1	2,139.3	2,172.9	2,290.2	2,326.6	2,416.4
Other assets	100.5	54.8	44.4	44.9	32.8	36.7	47.1	60.4
	$2,423.4	$ 2,457.1	$ 2,641.3	$ 2,700.7	$ 2,751.2	$ 2,822.9	$ 2,904.7	$ 3,159.8
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	$ 269.4	$ 268.2	$ 291.5	$ 278.6	$ 284.8	$ 266.6	$ 303.0	$ 303.5
Current portion of long-term debt	75.8	1.2	1.8	0.8	0.7	0.7	0.7	10.7
	345.2	269.4	293.3	279.4	285.5	267.3	303.7	314.2
Long-term debt	882.9	784.6	858.7	866.5	828.4	850.9	891.6	1,163.9
Employee future benefits	226.6	211.7	187.2	171.6	165.2	183.5	163.7	133.6
Other long-term obligations	13.3	26.9	23.3	33.5	63.6	61.2	7.9	11.1
Future income taxes/deferred credits	85.4	175.9	273.0	330.0	365.7	390.8	413.1	500.5
	1,553.4	1,468.5	1,635.5	1,681.0	1,708.4	1,753.7	1,780.0	2,123.3
Shareholders' equity								
Share capital	1,035.0	913.9	913.6	913.6	913.6	913.6	884.6	673.1
Contributed surplus	14.6	12.1	9.3	7.3	4.8	–	–	–
Retained earnings (deficit)	(174.7)	49.0	82.9	98.8	124.4	155.6	240.1	363.4
Accumulated other comprehensive income (loss)[1]	(4.9)	13.6	–	–	–	–	–	–
	870.0	988.6	1,005.8	1,019.7	1,042.8	1,069.2	1,124.7	1,036.5
	$2,423.4	$ 2,457.1	$ 2,641.3	$ 2,700.7	$ 2,751.2	$ 2,822.9	$ 2,904.7	$ 3,159.8

1 Effective January 1, 2007, the Company adopted the new CICA Section 3855, "Financial Instruments – Recognition and Measurement", Section 1530, "Comprehensive Income", Section 3865, "Hedges", Section 3861, "Financial Instruments – Disclosure and Presentations" and Section 3251, "Equity". These standards introduce new requirements for recognition, measurement and disclosure of financial instruments, when and how hedge accounting may be applied, establishes the concept of comprehensive income and rules for operating it, and establishes rules for the presentation of equity and changes in equity. Prior period financial statements are not revised for the adoption of these new standards.

Consolidated Statements of Cash Flows

Years ended December 31 (In millions of dollars)	2008	2007	2006	2005	2004	2003	2002	2001
Cash flows provided (used) by:								
Operations								
Net earnings (loss)	$ (221.1)	$ (31.6)	$ (15.9)	$ (25.6)	$ (28.6)	$ (84.5)	$ (123.3)	$ 44.5
Items not requiring (providing) cash								
Amortization	165.8	176.4	183.7	180.3	184.1	189.9	178.5	131.2
Impairment or write-down on property, plant and equipment	151.0	–	23.4	–	–	14.2	–	–
Loss (gain) on disposal of property, plant and equipment	(0.4)	13.6	(1.1)	1.6	1.1	0.7	(0.3)	30.2
Future income taxes	(93.5)	(100.7)	(56.1)	(51.6)	(31.3)	(67.9)	(91.5)	(7.7)
Foreign exchange loss (gain) on long-term debt	82.2	(103.9)	0.3	(24.7)	(53.5)	(58.2)	(12.3)	17.1
Employee future benefits, excess of expense over funding	2.9	6.7	6.4	(0.2)	5.2	19.8	13.9	4.9
Increase (decrease) in other long-term obligations	(5.1)	7.5	0.9	(7.4)	(11.4)	(14.0)	(11.6)	–
Non-controlling interest	0.8	0.1	1.5	0.6	–	–	–	–
Lower of cost or market write-down of inventories	5.9	1.8	(2.0)	0.5	1.5	(1.0)	–	–
Other	22.3	(20.9)	(6.3)	(0.8)	(6.4)	(11.6)	8.5	14.8
	110.8	(51.0)	134.8	72.7	60.7	(12.6)	(38.1)	235.0
Changes in non-cash working capital	(35.1)	48.3	(7.6)	(12.0)	(25.9)	23.4	25.8	31.2
Cash flows provided (used) by operations	75.7	(2.7)	127.2	60.7	34.8	10.8	(12.3)	266.2
Investing								
Acquisition of Snowflake newsprint mill	(169.8)	–	–	–	–	–	–	–
Acquisition of paper recycling business	–	–	–	–	–	(32.1)	–	–
Acquisition of Pacifica Papers Inc.	–	–	–	–	–	–	–	(74.1)
Additions to property, plant and equipment	(41.9)	(85.8)	(93.2)	(95.2)	(68.0)	(81.4)	(82.2)	(92.7)
Proceeds from sale of marketable securities	–	–	–	–	–	–	39.2	–
Proceeds from sale of property, plant and equipment	2.2	6.5	3.5	3.5	0.5	0.4	1.5	0.7
Proceeds from sale of Mackenzie pulp operation	–	–	–	–	–	–	–	103.8
Proceeds from termination of interest rate swaps	7.6	–	–	–	–	15.9	3.4	–
Purchase price adjustment	–	–	4.3	–	26.6	–	–	–
Decrease (increase) in other assets	(1.0)	(4.4)	(0.4)	(1.3)	(0.9)	1.1	(4.4)	1.6
Cash flows used by investing activities	(202.9)	(83.7)	(85.8)	(93.0)	(41.8)	(96.1)	(42.5)	(60.7)

Consolidated Statements of Cash Flows (continued)

Years ended December 31 (In millions of dollars)	2008	2007	2006	2005	2004	2003	2002	2001
Financing								
Special distribution	–	–	–	–	–	–	–	(1,490.3)
Dividends paid	–	–	–	–	–	–	–	(37.2)
Repayment of revolving operating loan	(47.1)	–	–	–	–	–	–	–
Increase (decrease) in revolving loan and loan payable	60.1	47.0	(5.5)	6.4	(12.5)	(105.7)	119.1	–
Issue of long-term debt	–	–	–	–	333.1	212.7	–	768.7
Repayment of long-term debt	–	–	–	–	(266.1)	–	(386.7)	(240.9)
Premium and expenses on repayment of long-term debt	–	–	–	–	(15.0)	–	–	–
Increase (decrease) in other long-term debt	3.6	3.6	(0.4)	(0.2)	(0.3)	(0.3)	6.1	–
Issue of shares, net of share issue costs	121.1	0.3	–	–	–	(0.1)	208.1	–
Increase (decrease) in other long-term obligations	–	–	–	–	–	(15.7)	3.4	–
Deferred financing costs	(5.5)	–	–	0.1	(6.2)	(5.6)	–	(30.7)
Cash flows provided (used) by financing activities	132.2	50.9	(5.9)	6.3	33.0	85.3	(50.0)	(1,030.4)
Cash and cash equivalents, increase (decrease) in the year	5.0	(35.5)	35.5	(26.0)	26.0	–	(104.8)	(824.9)
Cash and cash equivalents, beginning of year	–	35.5	–	26.0	–	–	104.8	929.7
Cash and cash equivalents, end of year	$ 5.0	$ –	$ 35.5	$ –	$ 26.0	$ –	$ –	$ 104.8

Other Financial and Operational Information

Years ended December 31 (In millions of dollars, except where otherwise stated)	2008	2007	2006	2005	2004	2003	2002	2001
Selected financial information								
EBITDA [1,10]	$ 159.4	$ 27.0	$ 211.0	$ 155.2	$ 152.8	$ 78.3	$ 56.6	$ 210.9
EBITDA margin [2]	8.6%	1.6%	11.2%	8.5%	8.1%	4.3%	3.3%	13.5%
Weighted average common shares outstanding (in millions)	336.1	214.7	214.6	214.6	214.6	206.6	193.4	141.1
Basic and diluted earnings (loss) per share (in dollars)	$ (0.66)	$ (0.15)	$ (0.07)	$ (0.12)	$ (0.13)	$ (0.41)	$ (0.64)	$ 0.32
Working capital [3]	$ 201.5	$ 221.3	$ 282.3	$ 237.9	$ 260.7	$ 229.4	$ 228.0	$ 379.5
Current assets to current liabilities [3]	1.36	1.83	1.97	1.85	1.92	1.86	1.75	2.25
Total debt to total capitalization [4,5]	52%	44%	46%	46%	44%	44%	44%	53%
Net debt to net capitalization [6,7]	52%	44%	45%	46%	43%	44%	44%	51%
Common shares outstanding at end of year (in millions)	381.8	214.7	214.6	214.6	214.6	214.6	205.9	174.8
Book value per share (in dollars)	$ 2.28	$ 4.60	$ 4.69	$ 4.75	$ 4.86	$ 4.98	$ 5.46	$ 5.93
Average spot rate (US$/CDN$) [8]	0.938	0.930	0.882	0.825	0.768	0.714	0.637	0.646
Share prices								
High	$ 1.78	$ 4.31	$ 3.60	$ 4.26	$ 4.95	$ 6.06	$ 7.70	$ 11.89
Low	0.24	1.19	2.40	2.40	3.30	2.93	4.65	5.30
Close	0.30	1.57	3.55	3.07	3.77	4.17	5.45	6.80
Benchmark prices [9]								
SC-A paper, 35 lb. (US$ per ton)	$ 866	$ 753	$ 788	$ 769	$ 713	$ 675	$ 669	$ 807
LWC paper, No. 5, 40 lb. (US$ per ton)	960	786	836	847	726	688	678	803
Telephone directory paper, 22.1 lb. (US$ per ton)	750	740	721	675	650	654	695	730
Newsprint 48.8 gsm, West Coast delivery (US$ per tonne)	687	579	649	600	544	493	456	578
NBSK pulp, Northern Europe delivery (US$ per tonne)	840	800	681	611	618	525	458	531
White top linerboard, 42 lb., Eastern U.S. delivery (US$ per ton)	750	697	673	608	591	547	570	594
Sales (000 tonnes)								
Specialty printing papers	1,081	1,055	990	943	994	967	848	472
Newsprint	602	496	699	707	755	769	750	604
Pulp	507	603	626	603	528	539	493	669

1 EBITDA is a non-GAAP measure. Refer to the "Non-GAAP Measures" section in Management's Discussion and Analysis.
2 EBITDA margin is defined as EBITDA as a percentage of sales.
3 Working capital and current assets to current liabilities, for these purposes, exclude current portion of long-term debt.
4 Total debt comprises long-term debt, including current portion.
5 Total capitalization comprises total debt and shareholders' equity.
6 Net debt comprises total debt less cash on hand.
7 Net capitalization comprises net debt and shareholders' equity.
8 Average spot rate is the average Bank of Canada noon spot rate over the reporting period.
9 Benchmark selling prices are sourced from RISI.
10 For EBITDA before specific items, refer to the "Non-GAAP Measures" section in Management's Discussion and Analysis.

Corporate Information

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Investor information

Annual meeting
The annual meeting of shareholders will be held on Wednesday, April 29, 2009 at 2 p.m. at the Delta Vancouver Airport Hotel in Richmond, British Columbia.

Transfer agent and registrar
CIBC Mellon Trust Company
at its principal offices in
Vancouver and Toronto.

Auditors
KPMG LLP
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(symbol: CTL)
The Toronto Stock Exchange

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Corporate Director

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Vancouver, BC
President and Chief Executive Officer, Catalyst Paper Corporation

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New York, NY
Portfolio Manager and Senior Research Analyst, Third Avenue Management, LLC

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Lyn Brown
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Tom Crowley
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Brian Johnston
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Robert H. Lindstrom
Vice-President, Supply Chain and Information Technology

Valerie Seager
Vice-President and General Counsel

David Smales
Vice-President, Finance and Chief Financial Officer

Peter M. Staiger
Corporate Controller and Treasurer

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Raw Fibre (g)	286
% certified sources	100
Filler (g)	45
Water (L)	22.4
Work (person secs)	2.9
Energy (Cal)	1709
% renewable	87

Emissions	
Greenhouse gas (g)	43.1 *
Air Particulate (mg)	24.9
Effluent BOD (mg)	129.6
Solid waste (cm^3)	22.3

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Catalyst

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